HOLDING COMPANIES
AND THEIR
PUBLISHED ACCOUNTS

by the late

SIR GILBERT GARNSEY, K.B.E., F.C.A.

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PREFACE TO THIRD EDITION

The first edition of this book, published in September 1923, was substantially a reprint of a paper read by the late Sir Gilbert Garnsey, K.B.E., F.C.A., before the London Members of the Institute of Chartered Accountants on the 12th December 1922. The enactment of the Companies Act, 1929, necessitated considerable amendments in preparing the second edition of the book published in July 1931; in that work I had the privilege of assisting Sir Gilbert Garnsey.

Less than a year after the publication of the second edition Sir Gilbert died suddenly at the early age of forty-nine. He was then at the height of his brilliant career and his death robbed the accountancy profession in this country of one of its most outstanding members and has laid upon me the responsibility of preparing the new edition of this book.

As in the previous edition, the provisions of the Companies Act, 1929, so far as they particularly affect holding companies, are set out in detail in Chapter I, and are commented upon in some detail in the later chapters. Such modifications have been made in the text of the second edition as appear to be desirable owing to developments in practice which have taken place in the last few years, or as a result of experience, and the chapter on taxation has been revised so as to bring it up to date.

As in the previous editions, Appendix II has been devoted to the presentation of a number of examples of accounts submitted to shareholders. These accounts are printed without comment in order to illustrate the methods adopted in practice by holding companies.

The opinion expressed by Sir Gilbert Garnsey in the preface to the second edition to the effect that the first step had been taken in the Companies Act, 1929, in the direction of procuring

that the published accounts of complex amalgamations should be more informative and intelligible, appears still to hold good. Further improvements are, however, required and references will be found in this book to certain respects in which the provisions of the Act appear to be defective.

I hope that the new edition of this book will be of service to persons interested in the presentation of accounts of holding companies and particularly to practising members of my profession.

I should be grateful for any suggestions which would render the book more useful.

T. B. ROBSON

3, FREDERICK'S PLACE
LONDON, E.C.2.
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CHAPTER I

INTRODUCTORY

The expression " Holding Company", which was little known in this country until recent years, is intended to describe the company whose distinctive function is to hold the shares or stock of one or more concerns with the intention of controlling their operations.

Prior to the passing of the Companies Act, 1928, holding companies had no specific legal recognition as such and were governed either by the regulations prescribed by their special Acts of Parliament or Royal Charters, or, if they were incorporated under the Companies Acts, were governed by the provisions of those Acts in exactly the same way as other companies similarly incorporated.

The Company Law Amendment Committee which reported in 1926 gave special consideration to the peculiar position which the holding company had come to occupy in the financial structure of British industry and commerce and in its Report devoted to the question a separate paragraph which is set out in Chapters V and VI.

The Committee also made certain recommendations in regard to the form of accounts of holding companies which were largely adopted in the Companies Act, 1928, and subsequently re-enacted in the consolidating act of 1929. Under that Act holding companies which are incorporated under the Companies Acts are now required by law to give certain information in their published accounts, but, apart from these provisions, there are still no special regulations applicable to holding companies, which continue to be governed in exactly the same way as other joint-stock concerns.

Provisions of Companies Act, 1929

The provisions of the Companies Act, 1929, specially affecting

holding companies are as follow :—

Section 125.—Where any of the assets of a company consist of shares in, or amounts owing (whether on account of a loan or otherwise) from a subsidiary company or subsidiary companies, the aggregate amount of those assets, distinguishing shares and indebtedness, shall be set out in the balance sheet of the first-mentioned company separately from all its other assets, and where a company is indebted, whether on account of a loan or otherwise, to a subsidiary company or subsidiary companies, the aggregate amount of that indebtedness shall be set out in the balance sheet of that company separately from all its other liabilities.

Section 126 (1).—Where a company (in this section referred to as " the holding company ") holds shares either directly or through a nominee in a subsidiary company or in two or more subsidiary companies, there shall be annexed to the balance sheet of the holding company a statement, signed by the persons by whom in pursuance of section one hundred and twenty-nine of this Act the balance sheet is signed, stating how the profits and losses of the subsidiary company, or, where there are two or more subsidiary companies, the aggregate profits and losses of those companies, have, so far as they concern the holding company, been dealt with in, or for the purposes of, the accounts of the holding company, and in particular how, and to what extent—

(*a*) provision has been made for the losses of a subsidiary company either in the accounts of that company or of the holding company, or of both ; and

(*b*) losses of a subsidiary company have been taken into account by the directors of the holding company in arriving at the profits and losses of the holding company as disclosed in its accounts :

Provided that it shall not be necessary to specify in any such statement the actual amount of the profits or losses of any subsidiary company, or the actual amount of any part of any such profits or losses which has been dealt with in any particular manner.

(2) If in the case of a subsidiary company the auditors' report on the balance sheet of the company does not state without qualification that the auditors have obtained all the information and explanations they have required and that the balance sheet is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of their information and the explanations given to them and as shown by the books of the company, the statement which is to be annexed as aforesaid to the balance sheet of the holding company shall contain particulars of the manner in which the report is qualified.

(3) For the purposes of this section, the profits or losses of a subsidiary company mean the profits or losses shown in any accounts of the subsidiary company made up to a date within the period to which the accounts of the holding company relate, or, if there are no such accounts of the subsidiary company available at the time when the accounts of the holding company are made up, the profits or losses

shown in the last previous accounts of the subsidiary company which became available within that period.

(4) If for any reason the directors of the holding company are unable to obtain such information as is necessary for the preparation of the statement aforesaid the directors who sign the balance sheet shall so report in writing and their report shall be annexed to the balance sheet in lieu of the statement.

Section 127 (1).—Where the assets of a company consist in whole or in part of shares in another company, whether held directly or through a nominee and whether that other company is a company within the meaning of this Act or not, and—

(*a*) the amount of the shares so held is at the time when the accounts of the holding company are made up more than 50 per cent. of the issued share capital of that other company or such as to entitle the company to more than 50 per cent. of the voting power in that other company; or

(*b*) the company has power (not being power vested in it by virtue only of the provisions of a debenture trust deed or by virtue of shares issued to it for the purpose in pursuance of those provisions) directly or indirectly to appoint the majority of the directors of that other company,

that other company shall be deemed to be a subsidiary company within the meaning of this Act, and the expression "subsidiary company" in this Act means a company in the case of which the conditions of this section are satisfied.

(2) Where a company the ordinary business of which includes the lending of money holds shares in another company as security only, no account shall for the purpose of determining under this section whether that other company is a subsidiary company be taken of the shares so held.

Section 128 (1).—The accounts which in pursuance of this Act are to be laid before every company in general meeting shall, subject to the provisions of this section, contain particulars showing:.............

(*a*) ....

(*b*) ....

(*c*) the total of the amount paid to the directors as remuneration for their services, inclusive of all fees, percentages, or other emoluments, paid to or receivable by them by or from the company or by or from any subsidiary company. ....

(2) ....

(3) The provisions of subsection (1) of this section with respect to the remuneration paid to directors shall not apply in relation to a managing director of the company, and in the case of any other director who holds any salaried employment or office in the company there shall not be required to be included in the said total amount any sums paid to him except sums paid by way of directors' fees.

(4) If in the case of any such accounts as aforesaid the requirements of this section are not complied with, it shall be the duty of the auditors of the company by whom the accounts are examined to include in their report on the balance sheet of the company, so far as they are reasonably able to do so, a statement giving the required particulars.

(5) In this section the expression "emoluments" includes fees, percentages and other payments made or consideration given, directly or indirectly, to a director as such, and the money value of any allowances or perquisites belonging to his office.

The foregoing provisions do not affect the form of accounts to be used by companies incorporated under Royal Charter or by special Acts of Parliament or the status of such companies, but refer solely to companies incorporated under the Companies Acts. It will be seen that they refer particularly to the information which has to be disclosed in the balance sheets of holding companies or in statements annexed thereto, and that no regulations are laid down by the Act as to the form or contents of the profit and loss account. The provisions contained in the Act are of considerable importance to those concerned in the direction and administration of businesses organised on the holding company basis.

The points covered by the relevant sections of the Act are discussed in the following pages and in a footnote to this chapter are quoted passages from opinions given by Counsel whose advice was sought by the Institute of Chartered Accountants and by the Society of Incorporated Accountants and Auditors, dealing with particular aspects of the new legislation in so far as it affects holding companies.

The remarks in the subsequent chapters are designed mainly to cover companies formed under the Companies Acts, but the principles enunciated apply *mutatis mutandis* to companies formed under Royal Charter or special statute.

What is a Holding Company?

It will be seen from the sections of the Companies Act, 1929, quoted above, that no legal definition of a holding company is given therein. It may, however, be inferred from the wording

used in Sections 126 and 127 of the Act to mean a company whose assets include investments in shares of one or more subsidiary companies.

It may be thought that the ordinary trust or investment company should be called a holding company because its purpose is to own the shares or stock of other concerns and to receive the dividends thereon. The term, however, is not generally applied to this class of company, which usually has only a comparatively small holding in the capital of the undertakings in which it is interested, and does not as a rule control the operations of any of them.

The class of company to which the term is generally applied and with which it is proposed to deal is that which either itself directly or indirectly through the ownership of shares in another undertaking or undertakings owns a controlling interest in the share capital of one or more other companies, thereby for practical purposes consolidating their interests, while at the same time each of the separate undertakings retains its existence as a separate entity. These separate concerns are referred to as subsidiary or constituent undertakings, while the company owning their share capitals and controlling their operations is called the holding or parent company.

Extracts from Counsels' Opinion to Institute of Chartered Accountants in England and Wales, dated July 1929

(1) *Section* 124 (1).—It is not in our view necessary to label the assets in groups as fixed or floating but, since the section requires that in the case of fixed assets the methods of valuation shall be stated, the method of valuation should be given in all instances where there is doubt whether the asset is fixed or floating. Moreover the balance sheet must be so drawn as to indicate in the case of each particular fixed asset or group of assets the basis of valuation adopted in regard to that asset or group.

(2) We do not doubt that for the purposes of Section 125 loans include debentures. We agree that debentures might strictly be included under "Amounts Owing" but that it will in practice be desirable to show them separately. We think that the nominal amount and the book value and the method of valuation should be stated in the case of amounts owing from subsidiaries and the nominal sum owing in the case of amounts owing to subsidiaries.

(3) Although there is in the Act no specific reference to foreign subsidiary companies we are of opinion that such companies are subsidiary companies within the meaning of Sections 126 and 127. We do not consider that a distinction must be made between Subsidiary Companies registered in Great Britain or a Parliamentary Company and Subsidiary Companies registered abroad.

(4) In our opinion accounts in Section 126 (3) means profit and loss accounts year by year and the statement to be annexed to the balance sheet has to take into account and deal with specifically profits and losses of subsidiary Companies for the particular year or period of their accounts ended within the year for which the holding company's accounts are made up or failing such for the period covered by the last accounts available.

(5) Section 126 (2).—The drawing up of and responsibility for the statement to be annexed to the balance sheet are matters for the Directors. In our opinion the statement is not incorporated as part of the balance sheet upon which the Auditors are required to report nor are the Auditors responsible for the accuracy of the contents of these statements. We see no objection to the statement which has to be "annexed" to the balance sheet appearing in the form of notes printed on a profit and loss account or on a balance sheet, or on both, but if this course is adopted the notes should follow the Auditors' certificate in order that the Auditors may not assume responsibility for the statement. Apart from any such assumption of responsibility we are of opinion that the Auditors are not in any way responsible for checking the accuracy of the statement. We do not consider that they are bound to satisfy themselves that it is *prima facie* correct or to point out any inaccuracy to the Directors or to bring to the attention of the shareholders any difference of opinion between the Auditors and Directors as to the accuracy of the Statement. Of course, in so far as profits or losses of a subsidiary are taken up in the accounts of the holding company, the matter comes within the scope of the ordinary functions of the Auditors of the holding company as such and will be covered by their report.

(6) . . . .

(7) . . . .

With regard to the supplementary question which has been put to us, in our opinion it is the duty of an Auditor to see that the balance sheet is framed in accordance with the requirements of the Act, including the requirement that shares in and sums owing from subsidiary companies shall be shown as separate items on the assets side, and sums owing to subsidiary companies as a separate item on the liabilities side, and to call attention in their report to any failure on the part of the company to comply with these statutory requirements.

A balance sheet so framed as to treat the assets and liabilities of subsidiaries as if they were assets and liabilities of the parent company, though useful as a supplementary document for information purposes, would not in our opinion satisfy the requirements of the Act.

Extracts from Counsels' Opinion to the Society of Incorporated Accountants and Auditors, dated 15th November 1929

(1) . . . .

(2) . . . .

(3) We do not think that sect. 124 (1) requires assets to be labelled in groups as fixed assets and floating, but unless grouped under such titles, assets should be described in such terms as enable a judgment to be formed whether they are fixed or floating. No single value should appear for a combination of assets which includes fixed as well as floating assets.

(4) . . . .

(5) Under sect. 125 the total indebtedness of a holding company to its subsidiary must be stated. Debentures of the parent Company owned by the subsidiary fall to be included in the aggregate amount of the indebtedness to the subsidiary.

As regards debenture indebtedness to the holding company, nominal amount, book value and method of valuation should be stated.

Neither the incorporation of the assets and liabilities of a subsidiary in the balance sheet of the holding Company, nor the issue of a separate balance sheet of the subsidiary company, is a compliance with the section.

(6) The Auditors are not, in our opinion, responsible for the accuracy of the statement referred to in sect. 126. That statement, unless contained in a separate document, should appear below the Auditors' Report.

(7) We think sects. 126 and 127 include subsidiary Companies registered abroad. All subsidiaries, whether registered at home or abroad, fall, for the purpose of the holding Company, to be treated alike.

Where Company A. is a subsidiary of Company B., and Company B. is a subsidiary of Company C., Company A. is not necessarily a subsidiary of Company C., as shares, held by Company B. in Company A. are not held by Company B. as a nominee for Company C. But if Company C. own any shares in Company A., it may well be that the facts are such that Company C. has power indirectly to appoint a majority of the Directors of Company A. (See sect. 127 (1) (*b*).) Company A. in that case is a subsidiary of Company C. and also of Company B.

CHAPTER II

ADVANTAGES AND DISADVANTAGES OF AMALGAMATION

A striking feature in the development of the organisation of industry and commerce in recent years is the increase of amalgamations both in number and size. This movement has been induced in some cases by a desire to obtain the advantages of large scale enterprise which often become available under conditions of amalgamation, and in others by special circumstances which have made fusion appear likely to bring benefits to the owners of the merging businesses. In other cases, however, the disadvantages of amalgamation have been ignored and mergers have been carried through which have been detrimental to those interested. Some businesses are obviously more likely than others to benefit by combination, and the closest study of the potential advantages and disadvantages of such a step in particular cases should always precede the actual amalgamation.

The realisation that, by combination of interests rather than by competition, the activities of the merging businesses could be developed more fully and economically than before has brought about many amalgamations, the originators of which have been able to envisage economies both in production and distribution.

The necessity for becoming independent of outside sources of supply of raw materials, which was specially noticeable during the late war, has also resulted in many combinations which have included the acquisition of control of these sources of supply of raw materials, thus assuring continuity of supplies and minimising interference with production.

Advantages of Amalgamation

Among the advantages to be derived from amalgamation in appropriate cases may be mentioned elimination of ruinous

competition, control of prices (which does not necessarily mean enhancement), pooling of technical experience and avoidance of duplication in research work, economy in production and distribution, improved management through the use of wider fields for comparison of results, control of sources of raw material supplies, economies made possible by concentration and standardisation of classes of product and specialisation of plant and departments to obtain maximum outputs at minimum prices, reduction of transport and handling charges and overhead expenses, avoidance of duplication in management, stocks, selling expenses, etc.

In the raising of share and loan capital also the large-scale enterprise may have advantages over the smaller concern and it has been found that for this reason a merger of businesses has sometimes facilitated their financial arrangements.

Parliament has recognised the importance of these advantages to trade and industry and by granting certain privileges in regard to exemption from stamp duties has given encouragement to schemes of amalgamation. This matter is dealt with in greater detail in Chapter XIV.

Disadvantages and Difficulties of Amalgamation

It must be said, however, on the other hand that amalgamations which are not wisely planned and directed have their dangers. The possibility of creating a monopoly controlled by individuals who disregard their public responsibilities or of fraudulent promotion and management with consequential losses on the part of investors demands consideration.

Amalgamation without a rational basis and without rational control has been known to lead to the conduct of business by regulation rather than by intelligent action. The elimination of the feeling of personal responsibility, excessive centralisation and the restriction of initiative in such circumstances have created a lack of elasticity in management and the resultant duplication of overhead expenses has sometimes deprived the

merger of the very economies which it was formed to obtain.

The merging of businesses into large units calls for a type of director which is not always forthcoming. For its successful conduct the large merger needs men of wide vision who are capable of grasping the essentials of problems of policy and of taking decisions on reports submitted to them by their managers. Delegation of responsibility and the substitution of reports for personal knowledge of detail can be carried out successfully only if the directors themselves have the ability to select the right type of manager to carry out the policy which they may prescribe. If this is not done the effects of a merger may be disastrous and the true results of operations may sometimes be obscured in such a way that a considerable time elapses before the shareholders (and even in some instances the directors themselves) become cognisant of the position.

Special Difficulties of Holding Company Mergers

This applies particularly to undertakings which are controlled by a holding company and where there are shareholders whose shares in the subsidiary concerns, whether preference or ordinary, have not been acquired by the parent company. It is obvious that in cases of this character, while transactions carried through by one or more of the undertakings may be to the advantage of the consolidation as a whole, yet at the same time they may seriously affect the interests of the creditors or outside shareholders.

In this connection such transactions as inter-company buying and selling should be fair to each member of the group and not merely be in the interests of the holding company or the group as a whole. The restriction of the activity and profit earning power of one company in order to concentrate activity in a manner most economical from the standpoint of the group as a whole may be good policy from that standpoint and yet give rise to difficult problems if there are minority or outside interests in the company whose activities are to be

restricted. Similarly a loan from one subsidiary company to another without security may be perfectly reasonable from the standpoint of the combination, and yet may be open to objection if there are outside debenture-holders or shareholders in the lending company.

There is also a danger of oppressive treatment of minority shareholders where, for instance, a subsidiary company pays no dividends but the parent company takes credit for its share of the profits and obtains the funds by means of advances from the subsidiary. While it is true that undistributed profits of a subsidiary should not be declared as dividend by the holding company yet in such a case for practical purposes the latter gets the full financial benefit of ownership without distributing any dividends to minority shareholders of the subsidiary.

Where there is a danger of prejudicing the rights of such shareholders in benefiting the organisation as a whole the proper course is generally to acquire their holdings if it is possible to do so on reasonable terms.

Section 155 of the Companies Act, 1929, provides a procedure for compulsory acquisition of minority interests where holders of at least nine-tenths of a particular class of share have approved an offer for the purchase of their shares by a holding company within four months from the date of the offer. In this event the holding company at any time within the two subsequent months may give to those shareholders who have not accepted the offer formal notice of its desire to acquire their shares, and unless the shareholder applies to the Court and obtains a contrary order the holding company then becomes entitled to acquire the shares on the terms accepted by the remainder of the shareholders.

CHAPTER III

AMALGAMATIONS THROUGH A HOLDING COMPANY

It is not the intention to enter into a discussion of the bases upon which a holding company may acquire its interests in subsidiary undertakings or to deal in any way with the principles governing the fusion of ownership of businesses through the medium of a holding company. This book is more concerned with the presentation of the figures to the shareholders after the subsidiary undertakings have been acquired and the fusion has become an accomplished fact. At the same time a few general remarks may not be out of place and may assist in dealing with some of the points which arise on the accounts.

Methods of Amalgamation

Businesses desiring to amalgamate their ownership (as distinct from merely entering into an agreement to pool their profits) generally do so in one of two ways. The first—the direct merger—where an existing company, or one formed for the purpose, takes over the actual assets and liabilities of the other undertakings and amalgamates them with its own, the other concerns being wound up and ceasing to exist. The second—the indirect merger through a holding company—where a company formed for the purpose, or one already in existence, acquires the shares of the other concerns and not their actual assets and liabilities.

The holding company method of amalgamation or consolidation of interests has become widespread in recent years, and it is the most effective way in which an amalgamation can be brought about when it is desired to interfere as little as possible with the existing organisations and to retain the names and goodwill of businesses of established reputation.

The process is simple as it does not necessarily involve inter-

ference with the debenture-holders, the preference shareholders or a minority of ordinary shareholders of the merging concerns who may be unwilling to dispose of their holdings. As has been mentioned in the preceding chapter, the continued existence of outside interests in the subsidiary undertakings sometimes makes it difficult to obtain the full benefits of amalgamation, but in some cases the acquisition of a bare controlling interest is the only economical or practicable method of carrying through a fusion.

Special considerations affecting choice of form of Merger

The consideration just mentioned particularly applies where one or more of the undertakings to be acquired has raised capital in the shape of preference shares or debentures at low rates of interest. In the direct form of amalgamation, involving as it does the liquidation of the old concerns, it might be necessary to repay the preference shareholders or debenture-holders at par or at a premium even though their shares or debentures might have a market price well below par. If it were desired to induce the preference shareholders or debenture-holders to accept securities of the new company instead of insisting on their legal rights of repayment it might be necessary as a condition precedent to their acceptance to offer them higher rates of interest or some similar concession.

Similarly there are sometimes ordinary shareholders who do not assent to the scheme ; if they are not legally bound to acceptance of the terms accepted by the majority of the shareholders they may have to be bought out on terms favourable to them.

The expense of dealing with these non-assenting ordinary shareholders and the holders of preference shares and debentures would necessarily fall upon the assenting ordinary shareholders and the purchasing company. The value of the business as a whole is the same whatever method of amalgamation may be employed ; if, therefore, the minority interests receive any preferential consideration, that consideration must reduce the

value of what remains for the purchaser and the assenting ordinary shareholders. It is true that it may be in the best interests of the latter to suffer this expense in order to obtain for the directors a free hand to deal subsequently with the assets and businesses of the acquired undertakings. There are, however, circumstances where this consideration is not of paramount importance and in those circumstances the expense may be avoided by the retention of the acquired undertakings as separate legal entities without disturbing their debenture-holders, preference shareholders and non-assenting ordinary shareholders. In these cases the acquisition of the shares necessary to give control of the undertakings is all that is required and if the debentures and preference shares carry low rates of interest, the absence of any necessity to include them in the acquisition may make the equity obtained by the acquisition of the ordinary shares more valuable than it would be under the direct merger method of amalgamation.

Stamp Duty Exemptions

The reliefs from stamp duties which have been accorded to amalgamations, and are dealt with more fully in Chapter XIV, can only be obtained if holders of 90 per cent. of the issued share capital of all classes of any company which is acquired by a holding company accept the holding company's offer. This sometimes may make it more economical to include the preference shareholders in the offer and to bring in the larger portion of any other minority interests, rather than for such shareholders to retain their holdings of shares in the acquired company.

There is also the machinery already referred to in Chapter II, whereby if the holders of nine-tenths of any class of share accept an offer for their shares, the remaining holders may be compelled to accept similar terms, except in so far as they may be varied by the Court.

Taxation Advantages

From the standpoint of taxation there are advantages in amalgamating by the holding company method in cases where any of the merging companies have accumulated losses or arrears of wear and tear allowances for income-tax purposes, inasmuch as owing to the identities of the individual companies being maintained, these companies retain their right to set off these accumulations against profits in calculating their future taxation liabilities. They would lose this right if their assets and businesses were sold to a separate concern.

There are also advantages in using the holding company method where the profits of the undertakings to be acquired have been rising in the years preceding the merger. If they transfer their businesses to new legal ownership, as would be necessary under a direct merger, their income-tax assessments for the year of transfer and the preceding year are liable to revision, and, instead of being based on the lower profits of the year preceding the year of assessment, would be based on the higher profits actually earned. No such adjustment arises if the holding company method of fusion is adopted.

Disadvantages and difficulties sometimes arise in the use of this method of fusion, particularly in regard to setting off losses incurred in one unit of a holding company merger against profits earned by another. These and notes as to methods of dealing with these difficulties are dealt with in Chapter XIV.

It will be apparent from what has been said that it is not possible to lay down any hard and fast rule as to whether the direct merger or holding company method of merger should be adopted. Each method has its advantages and disadvantages and consequently what is suitable in one set of circumstances may not be advisable in another. Every individual case must be judged on its merits and an appropriate method of merger selected which will best meet the needs of the situation.

Formation of Holding Companies

Where it is decided to proceed by the holding company method, the course followed is as a rule to form a new company (though this is not essential) to acquire the shares in the merging companies either for cash or in exchange for shares in the holding company, the terms and basis of exchange in any case having been agreed beforehand. The result is that the holding company becomes the sole or principal shareholder in the various undertakings whose shares have been acquired in this manner and, as such, becomes entitled to the profits of those undertakings as they are declared in dividend. The holding company, in turn, distributes the profits amongst its shareholders.

A shareholder in one of the old undertakings who has taken shares in the holding company in exchange for his shares, instead of being dependent upon the profits and assets of the old undertaking alone, thus becomes interested in the profits and assets of all the concerns whose shares have been purchased by the holding company. The shareholder looks to the holding company for his dividends and the security for his capital, while the holding company, in turn, looks to the undertakings whose shares it has acquired.

It sometimes happens that instead of forming a new company, an existing undertaking, perhaps the largest of the companies contemplating a fusion of interests, acquires the shares of the remaining concerns necessary to give control, and in this way a fusion of ownership is brought about through the larger concern, which then becomes the holding company.

Cases also occur where a large undertaking, with a view to facilitating the carrying on of its business or for other reasons, forms one or more subsidiary companies to take over the assets and liabilities of certain sections or departments of the business, or even the whole business, taking as consideration for the net assets the shares of the subsidiary undertakings. This type of internal reorganisation can now be undertaken without

incurring the stamp duties which were formerly imposed (see Chapter XIV).

An important question arises as to what shares in the subsidiary undertakings are necessary to obtain control. This naturally is a matter to be decided according to the circumstances of each individual case and the rights of the various classes of shareholders. As a rule, however, at all events in this country, the acquisition of the ordinary shares, or a majority of them, would give effective control. This may be sufficient for the purpose in view of those who are carrying out the amalgamation, though a three-fourths majority would in most cases be necessary to carry a special resolution, for example, to alter the articles of association of a company. As already mentioned nine-tenths of the total issued share capital of all classes would have to be acquired in order to take advantage of the stamp duty exemptions granted by the Finance Act, 1927.

Position of Preference Shareholders with Special Rights

In many companies preference shareholders have voting rights only when their dividends are in arrear or their capital in jeopardy, but in some cases they are entitled under the articles of association to attend and vote at all meetings; in other cases they are entitled to participate with the ordinary shareholders in the surplus assets. Where they have voting or participating rights it may be necessary that in order that the holding company may obtain effective working control of the subsidiary undertakings it should acquire a sufficient number of their preference shares or guarantee the preference dividends. Should it be necessary to acquire the preference shares, the difficulties of effecting the amalgamation may be increased, especially if, as so often happens, the preference shares are widely held. In that event the circularisation of the holders of the shares becomes necessary and the larger the number of shareholders the more troublesome it may be to obtain the requisite number of assents to the scheme.

CHAPTER IV

ORGANISATION OF DIRECTION AND MANAGEMENT OF A HOLDING COMPANY

After a holding company has acquired the ownership of one or more subsidiary undertakings, the work of reorganisation and co-ordination begins. One of the first problems is how to organise the direction and management of the combined enterprise (the control being usually exercised through the holding company) so as to obtain the maximum benefits of amalgamation whilst retaining any advantages there may be in maintaining the separate identities of the constituent concerns. Some rearrangement of the directorates and managements of the various concerns is usually found necessary in order to achieve this object.

If full use of the potentialities of amalgamation is to be made this matter must have the closest study by those responsible for the conduct of the holding company's affairs.

In considering the desirability of a fusion specific lines of possible improvement under combined ownership will no doubt have been perceived, but the opportunity for full consideration of the possibilities of the combined enterprise will probably first arise only when that ownership has become an accomplished fact. Careful consideration and study at this stage will often reveal new lines of organisation along which it may be desirable to proceed, and it is most important that the various factors should be carefully weighed before decisions are taken affecting the whole future of the enterprise under its new conditions.

Each case has its peculiar circumstances and it is not possible here to deal with the many problems involved. It is, however, proposed to mention a few of the major considerations which frequently arise in approaching the matter from the new angle.

The Extent to which Unification is Feasible

One of the most important matters which arise in considering

this question is how far the directors of the holding company may reasonably regard the subsidiary companies for practical purposes, both as to direction and management, as being just as much parts of the parent company's business as if they were legally branches or departments of that business. The full benefits of amalgamation can usually be obtained only if the directors are in a position to view the business of the combine as a whole and to consider problems of organisation and finance from the same standpoint as that from which they would have approached the problems had a direct merger been effected.

In order to bring about economies in production the directors of the holding company may desire to transfer the whole or a part of the business previously done by one company to another or shut down or sell the factory of one subsidiary company and transfer the work hitherto carried on in that factory to the works of another subsidiary. This step may be in the interests of the combine as a whole, even if in some cases it may result in a diminution in the earnings or in losses being incurred by the individual subsidiary company whose business it is proposed to transfer.

In another case, the directors may consider it in the interests of the combine to pool the financial resources of all the constituent companies. The adoption of such a policy may involve the use of moneys legally belonging to a successful subsidiary for the purpose of discharging the obligations of another subsidiary which is in financial difficulties.

In either of the foregoing cases, should there be any outside shareholders in the subsidiary company which as an individual entity is made to suffer for the good of the combine as a whole, those shareholders might find their interests prejudiced by the actions of the directors. Further, the interests of the creditors of the subsidiary company might also be affected prejudicially.

In circumstances such as have been described the directors of the individual subsidiary companies may, therefore, sometimes be under an obligation to approach the problem of

organisation from a standpoint slightly different from that of a director of the holding company. If such a conflict of interests does in fact arise, the directors would have to consider how far the policy of treating the combined businesses as a whole and dealing with the assets of the subsidiary companies as if they were branches of a complete merger is justifiable.

It is sometimes possible to obviate difficulties in regard to outside shareholders when the interests of those shareholders consist of preference shares. This may be done by the holding company guaranteeing their dividends and capital rights. By this means the directors of the holding company and of the subsidiary companies may obtain freedom to view the situation from the standpoint of the combine as a whole so long, at any rate, as the holding company remains solvent.

Another course is either by negotiation or by using in appropriate cases the machinery for compulsory acquisition referred to in Chapter II to acquire the shares held by outside interests in the subsidiary concerns.

If this is done and the subsidiary companies thus become wholly owned, the directors of the holding company, provided they are satisfied that the rights of the creditors of the individual companies are adequately protected (for example by the holding company's own ability and willingness to meet their claims), can for practical purposes ignore the legal position and deal with the undertakings and assets of the constituent companies as if they were branches or departments of one merger company.

In considering how far this policy may reasonably be applied in practice each case must obviously be considered on its own merits, and if necessary the holding company's legal advisers should be brought into consultation before any action is taken.

Composition and Work of Boards of Directors

The board of the holding company often consists of one or more directors concerned in the management of each or certain

of the subsidiaries together with one or two directors who are not concerned in the management at all.

It is usual for the holding company's board to direct the policy and operations of the consolidation as a whole, and, subject to the rights of outside shareholders to representation on the boards, to appoint nominees of the holding company to be directors of the subsidiary companies. The subsidiary companies, whilst retaining their legal status as separate entities, are thereby in effect directed in a large measure in the same way as if they were integral parts or branches of the holding company.

Where the subsidiary companies are not of such a size or the outside interests so important as to make desirable a different constitution of the boards of the subsidiary companies, advantages may accrue from the appointment of the holding company itself and its managing director(s) as the only directors of each subsidiary. If the Memoranda and Articles of Association of the companies permit, there appears to be nothing in law to preclude the appointment of the holding company as a director. When this course is followed the holding company would also be appointed as manager of the subsidiaries and in effect would control their activities through its managing director(s), subject to the general supervision of the parent board and within the limits of discretion granted by the parent board to the managing director(s).

It is more usually found in practice, however, that where appropriate conditions exist, having regard to the size of the whole combine and the peculiar circumstances of the case, considerable advantages accrue from the appointment of identical directors to the boards of the subsidiary and parent concerns. In such cases the board of the holding company would deal with the different subsidiary companies as departments of the whole enterprise and would constitute itself a board of an individual subsidiary company only for formal legal purposes.

If the combine were too large for identical boards to be

appointed, or, if there were other circumstances rendering such a course unadvisable, the board of the holding company might retain for itself the right to dictate matters of common interest and broad outlines of policy, and would appoint boards of directors of the subsidiaries which would generally include one or more members of the parent board.

These subsidiary boards of directors would be responsible to the holding company for working out and deciding any matters of policy within the limits of the discretion prescribed by the parent concern, and, except in any respects in which contrary instructions were received from the holding company, for controlling the managements of their respective businesses.

It is obviously desirable not to make the board of the holding company so large as to be unwieldy and in a large undertaking some system of delegation becomes essential. At the same time the board of the parent concern must be kept in touch with the activities of its component units, and in a position, through the receipt of reports, statistics and accounts prepared on comparative bases, to judge of the effectiveness with which the boards of the subsidiary companies perform the duties allotted to them.

Cases are not unknown where, although the holding company owns a large majority of the ordinary shares, it has been found unadvisable, on grounds of policy or from personal or other causes difficult to deal with, to exercise any real control at all over the affairs of a subsidiary undertaking which may thus carry on its business exactly as it has always done and without any regard for the real interests of the merger. This state of affairs does not as a rule last for long, and the time soon comes when the paramount interests of the consolidation make it incumbent upon the board of the holding company to deal with the situation and to bring the control of the affairs of the subsidiary concerned into conformity with the requirements of the organisation as a whole.

Organisation of Management

In deciding on the form of management organisation to be adopted the board of the holding company is frequently confronted with a matter of some complexity. The correct solution of the problem turns on a variety of circumstances, the conditions of operation and the size and nature of the associated undertakings, the suitability of the available personnel, the extent to which centralised buying, selling or accounting may be desirable, possibilities of specialisation of plant or business, and so on. All of these must be closely studied if the best results are to be obtained.

If the holding company itself and its managing director(s) were appointed as the only directors and the holding company as manager of each subsidiary company, the actual work of management of the subsidiaries would be carried out by the officials of the holding company who would report to the parent board through the managing director(s) of the holding company. Thus the actual operations of each subsidiary would be directly controlled by the holding company.

Where the boards of all companies are identical, the managing directors or general managers of the individual concerns would report direct to the holding company board unless it were decided to appoint managing directors or an executive committee of the board for the combined enterprise. In the latter event the local managing directors or managers would report to the managing directors or executive committee of the holding company who would present their report to the board on the business as a whole and be responsible for carrying out the decisions of the board as if they were managing directors of each company.

In some circumstances it is found to be desirable to organise the management partially along functional lines, e.g. under departments rather than by companies where centralised management of, say, sales or purchases, is decided upon. In these cases the heads of therespective departments instead of the

officials of the individual companies would be responsible and report to the board of the holding company or its managing directors or executive committee of the board as the case might be.

Where, however, the boards of all the companies are not identical, the management of each company would as a rule be under the control of its own board, to which it would report. This might be convenient in the case of those large organisations where delegation of control through subsidiary boards was found to be a condition precedent to success. In the smaller combines it might be desirable that the managing directors or executive committee of the board of the holding company should be given special duties in relation to the management of the subsidiaries. This could sometimes be achieved by appointing the holding company officials to positions in the subsidiary companies giving them the right to perform such duties. Obviously any powers given to holding company officials which might conflict with the duties of the boards of the subsidiaries would require to be carefully defined, as otherwise difficulties would inevitably arise. At the same time elasticity in business management must be retained as far as possible and the avoidance of "regulations" of a character restricting initiative to an undesirable extent should be avoided.

The Transitional Period

In the period of reorganisation which should follow a merger of interests it is as desirable in the case of a holding company as in one of a complete merger to arrange the changes in stages which disturb as little as possible the power of the combine to supply its customers and minimise the effect at any one time of changes in the personnel of the business. Close study of requirements and possibilities, careful planning of changes and the stages through which the organisation shall pass in moving towards the final form selected for it and the scrupulous avoidance of any step which might unduly restrict initiative or diminish flexibility, are of the utmost importance if business is not to be impeded and customers disturbed by the changes.

CHAPTER V

TRADING AND NON-TRADING COMPANIES

There are, broadly, two classes of holding companies. The first class is that of the trading companies—those which, in addition to holding controlling interests in and directing the affairs of other companies, themselves carry on a trade or business. The second class is that of the non-trading companies—which by their regulations have no power to carry on a trade or business other than the holding of investments, and whose sole functions are to hold the shares and direct the operations of the subsidiary companies and to receive and re-distribute the dividends declared by those companies.

A holding company which itself carries on trading would naturally have in its balance sheet, in addition to the shares in and accounts with the subsidiary undertakings, assets of the character usually held by trading concerns, such as buildings, plant, stocks, debtors, cash and so forth, while in the case of the non-trading holding company, practically the only assets would be the holding company's interest in subsidiary concerns in the form of investments in shares and any advances on loan or current account.

There are important differences between these two classes of holding company from the standpoint of taxation. These are dealt with in Chapter XIV.

There may be a question whether there is any difference between the two classes of company in their legal position in regard to writing down the cost of investments in subsidiary undertakings before the payment of dividends, assuming that the shares have diminished in value owing to trading losses since they were acquired.

In the case of the non-trading concern it would seem that, although such a course might be practically desirable, the holding company is not under a legal obligation to write

down the cost, inasmuch as the investments would be regarded as capital assets (or fixed capital), and the decision in *Verner v. General Commercial Trust* would apparently hold good.

With the trading concern, on the other hand, however great may be the practical considerations in favour of writing down the value of the investments, the legal position is not so clear, and so far as the writer is aware, has not been definitely decided by the courts. It is probable, nevertheless, that the manner in which the investments in subsidiary companies are stated in the balance sheets of holding companies would show that in the vast majority of cases these investments have been regarded as fixed assets, though it should be mentioned that unless the method of valuation is given they would appear to be regarded as floating assets. In so far as the investments are regarded as fixed assets the decision referred to above would probably apply in these cases also.

The Company Law Amendment Committee which reported in 1926 dealt with the position of holding companies in general terms as follows :—

"In law there is nothing to prevent a holding company from using the dividend received from profit-making subsidiaries in order to pay a dividend on its own shares without taking into account losses suffered by other subsidiaries, and the effect of this may be that the holding company is paying a dividend at a time when the group as a whole is in debit on the year's working. Although this practice may in general be unsound, particularly if it is continued for any period, we do not think that any case has been made for prohibiting it altogether. On the other hand, we consider that shareholders and others concerned are entitled to know whether the dividends proposed to be declared by the holding company are justified by the results of the group as a whole."

The Companies Act, 1929, which was based largely on the recommendations of the Committee, gives no explicit directions as to the method of dealing with the results of subsidiary companies which have incurred trading losses ; it merely requires the directors to attach to the balance sheet a statement showing how the profits and losses of subsidiary companies have been dealt with.

The exact legal position in the different classes of trading and

non-trading holding companies is thus little clearer than when this book was first published. In any event the remarks which follow deal with the position of both classes of companies from an accountant's point of view and without regard to the possible legal position in any particular case which would require detailed consideration and possibly special treatment.

It may perhaps be mentioned here that the requirements of the Act relating to the statement regarding subsidiary companies do not appear to have achieved the object mentioned in the last sentence quoted above from the Committee's report, inasmuch as actual figures of profits or losses need not be given. According to the opinion of counsel quoted in the footnote to Chapter I the statement is to deal with the profits and losses of the subsidiary companies *for the year* coinciding with or ending within the accounting period of the holding company; if this is a correct interpretation of the Act it would not be legally obligatory for the directors to deal in the statement with the accumulations of profits or losses in the accounts of the subsidiary undertakings. Where the net balance of such accumulations is material the disclosure of the position may well be necessary, however, for a proper understanding of the holding company's accounts. In such a case the directors would be well advised to deal with the situation by reporting on the matter in their statement annexed to the balance sheet, rather than leave the auditors to comment upon the accumulations in their report. The question is discussed further in Chapter IX.

CHAPTER VI

METHODS OF PRESENTING ACCOUNTS

The balance sheet ot every holding company giving the information prescribed by the Companies Act, 1929, must, like the balance sheet of every other company incorporated under the Companies Acts, be prepared and submitted to the members once at least in every year. This rule applies to both public and private holding companies, the only distinction being that the latter are not obliged to file their accounts with the Registrar of Joint Stock Companies, nor, unless so prescribed by their Articles of Association, are they required to circulate the balance sheet to the members. A member of a private company can, however, obtain a copy of the balance sheet on payment.

The regulations of companies usually also require the profit and loss account to be circulated to the members. The Act itself only requires such an account to be laid before the company in general meeting and in the absence of special articles it would not appear to be compulsory to circulate it.

The balance sheet prescribed by the Act, which is referred to hereafter as the "legal" balance sheet, must treat the holding company's interests in subsidiary undertakings as an investment (Section 125 of the Companies Act, 1929) and must not consolidate the assets and liabilities of those undertakings with those of the holding company.

This regulation is in accordance with the recommendations made by the Company Law Amendment Committee whose report in regard thereto was as follows :—

" The position of holding companies with particular reference to the form of their accounts has been much discussed before us and the evidence discloses a considerable divergence of views on the subject among both commercial men and accountants. Complaints have undoubtedly been heard from shareholders in such companies that the information given to them by the accounts of the holding companies is unintelligible without fuller details as to the position of the subsidiary

and associated companies. Some witnesses take the view that the publication of a consolidated or combined balance sheet for the whole group of companies should be made compulsory. We do not agree with this. Many holding companies have adopted the practice already and we consider that the matter should be left to the shareholders to make such requirements as to the form of their company's accounts as they may think proper. It is often forgotten that it may be in the best interests of the shareholders themselves that the accounts should be in a certain form, and we consider that undue interference by the Legislature in the internal affairs of companies is to be avoided, even if some risk of hardship in individual cases is involved."

It will be seen from the foregoing extract that the Committee felt that as far as possible a company's right to determine for itself the form in which its accounts should be published should not be interfered with by Parliament. For this reason it took the view, which Parliament subsequently endorsed, that whilst a legal balance sheet treating the shareholdings in subsidiary companies as investments must be published, the publication of a consolidated balance sheet showing the combined position of a holding company and its subsidiary companies should not be made compulsory.

It may be of interest to note that the Companies Act, 1934, of the Dominion of Canada, which in its accounting sections is largely modelled on the British Act, allows holding companies the option to determine for themselves whether they will publish their balance sheets in the " legal " form (i.e., treating interests in subsidiary undertakings as investments) or publish consolidated accounts. In this direction the Dominion Parliament appears to have been prepared to allow a greater measure of discretion to companies than the British legislature considered desirable.

The British Act prescribes that certain *special* information must be given in the legal accounts of holding companies. These rules, which have been set out in detail in Chapter I, fix the minimum amount of information which must be given rather than the amount which it may be desirable to give in any individual case. Shareholders rarely interfere with the discretion of directors in determining what information over

and above the minimum is desirable, and the responsibility for settling the nature and extent of the information to be given in the published accounts therefore rests largely with the directors. In reaching their decisions on the matter, directors are usually guided by their own judgment as to what is appropriate in the circumstances of their companies, and accordingly the accounts of some companies are much more informative than those of others.

Having reached their decision as to the information to be given in the balance sheet, the directors must then prepare and annex a statement showing how and to what extent the profits and losses of subsidiary companies have been dealt with. (Section 126.) The requirements in connection with this statement are dealt with in some detail in Chapter IX.

Most accountants consider that it was a wise decision that every company should be obliged to publish a balance sheet showing its own position as a separate legal entity and that the publication of a consolidated statement should not be accepted as a substitute therefor. Many think, however, that the obligatory supplemental information which has to accompany the legal balance sheet should be extended and that in this respect too large a measure of discretion has been left by Parliament to directors. In certain respects, as will be seen later, this opinion would appear to be justified.

Methods of Supplementing Legal Accounts

Directors sometimes feel that by submitting only the legal accounts with the prescribed supplementary information to their members they are serving best the true interests of the business and this no doubt often represents an accurate appreciation of the position. In other cases directors supplement the legal accounts by the publication of statements giving a greater measure of information than the statute demands.

There are, speaking generally, three methods of presenting this additional information, which, however, must be regarded

only as supplementary to and not in substitution for the legal accounts, viz:

(i) By the publication simultaneously of the separate balance sheets and profit and loss accounts of all the subsidiary companies.

(ii) By the publication of a statement giving a summary of the aggregate assets and liabilities of all the subsidiary undertakings taken together.

(iii) By the publication of a statement in the form of a consolidated balance sheet of the whole undertaking, amalgamating the assets and liabilities of all the subsidiaries (and sub-subsidiaries) with those of the holding company and a consolidated profit and loss account embracing the profits and losses of all the companies.

If the holding company does not own the whole of the capital of the subsidiary companies the separate statement and consolidated balance sheet referred to in (ii) and (iii) above should show as a liability the total interests of all outside shareholders. These may include the whole or a number of the preference shares and also any outside interests in the ordinary share capital, reserves and profit balances.

Sometimes, instead of showing the minority interests in subsidiary companies as a liability as indicated above, only the portions of each asset and liability of the subsidiary companies attributable to the capital held by the holding company are set out. This procedure is not to be recommended, and gives rise to some peculiar results, as will be seen later.

Preliminary Draft Balance Sheets in Appendix I

It is now proposed to consider the advantages and disadvantages of presenting the published accounts in the different ways mentioned above, the results thereby obtained and some of the more important points which arise in connection therewith.

In order to enable this to be followed the more readily an example is given in Appendix I of balance sheets of a holding company and four companies, referred to as A., B., C. and D.

It will be noted that these accounts are all described as preliminary draft balance sheets, for the reason that they are not drawn up in the form in which they would necessarily be published, but have been drafted so as to give sufficient details to illustrate some of the points to which reference will hereafter be made.

For the present purpose it is assumed that the four subsidiary undertakings are all managed and controlled by the board of the holding company or by their nominees on the boards of the four undertakings.

The balance sheet of the holding company shows that it owns one-half of the total preference share issue and nine-tenths of the ordinary shares of Subsidiary Company A., as well as 17,400 out of 17,500 shares of Subsidiary Company B., and just over one-half of the shares of Subsidiary Company D. Some of these have been acquired at a premium and some at a discount.

Subsidiary Company B. owns the whole of the 2,600 ordinary shares of Company C. and as there are no special voting rights attaching to the preference shares of that company (held by outside shareholders) Subsidiary B. controls Company C. By virtue of its control of Subsidiary B., the holding company has in fact the control of Company C. but this does not make the latter a subsidiary of the holding company within the meaning of Section 127 of the Companies Act, 1929.

Sub-subsidiary Company

The first condition laid down in the definition of a subsidiary company in that section is that shares must be held by the parent concern. This condition is not complied with by the holding company in the example in the Appendix, and therefore as a company controlled through a subsidiary company Company C. falls into a special category for which no special

legislative provision is made in the Act. From a practical standpoint a company of this character is clearly a subsidiary undertaking of the holding company and for the purposes of this book the term "Sub-subsidiary Company" has been adopted to describe it: the omission to bring such companies within the scope of the Act as subsidiary companies may be regarded as one of those matters to which attention might well be given on any revision of the law.

Shares in Holding Company held by Subsidiary

It will also be seen that Subsidiary Company B. owns a block of shares in the holding company. Instances of subsidiary companies owning shares in their parent company are not very frequently met in Great Britain and are usually found only where the subsidiaries have had the shares among their investments at the time when their own shares were acquired by the holding company; this was the case with Subsidiary Company B.

Had the block of shares owned by Subsidiary B. in the holding company been sufficiently large (whether with or without voting rights) or had there been voting rights attaching to the shares held by Subsidiary B. sufficient to give control of the holding company, the anomalous position would have arisen that the holding company would have become a subsidiary of its own subsidiary company within the meaning of the Companies Act, 1929. Strange as it may seem, cases of this character have actually been encountered in practice.

Subsidiary A in Appendix I

Dealing further with the preliminary draft balance sheet of the holding company, considerable advances (some of which are secured in the form of debenture stock) have been made to Subsidiary A. and commitments have been entered into on behalf of that concern.

Attention is also drawn to the reserve, which includes a sum of £120,000 for premium on the issue of ordinary shares of the

holding company given in payment for the ordinary shares acquired in Subsidiary A., while the profit and loss account shows that its net profit includes a considerable dividend from Subsidiary B., but no dividend whatever from Subsidiaries A. or D. The holding company has, however, made a profit on the sale of goods purchased from Subsidiary A., and taken credit for interest charged against that company on advances, while its own trading shows a loss of £280,000. Taken as a whole, there is a substantial profit shown, and the preliminary draft balance sheet appears to reveal a flourishing state of affairs.

A glance at the balance sheet of Subsidiary A. shows that this company has made heavy losses and has had to borrow substantial sums from the holding company and Subsidiary B., besides having other large outstanding creditors. The greater portion of its stocks on hand has been acquired from Subsidiary B. at a substantial profit to the latter. Generally the balance sheet of Subsidiary A. shows a bad position.

Subsidiary B in Appendix I

With regard to Subsidiary B., it is obvious on looking at the figures that this is the company which is responsible for the large profits, the greater part of which has been paid away in dividends to the holding company. It will be noticed that since the date of the purchase of this company's shares by the holding company, a considerable dividend has been paid out of the surplus existing at that time. The shares held by this company in Company C. and in the holding company have been acquired at a premium, but the debenture stock of the holding company has been acquired at a discount. Subsidiary B. has also made advances to Subsidiary A.

Sub-subsidiary C in Appendix I

The special points in connection with Company C. are that the preference shareholders are not entitled to vote except in special circumstances but are entitled to participate with the

ordinary shareholders in the surplus on a winding-up. The capital and dividends of the preference shareholders have been guaranteed by the holding company presumably with the object of enabling the latter, through its control of Subsidiary B., to deal more freely with the assets and business of Company C.

As already mentioned the latter company, though legally a subsidiary of Company B. and not of the holding company, is from a practical standpoint none the less controlled by the holding company.

Subsidiary D in Appendix I

In the case of Subsidiary D., the draft balance sheet included is dated 30th November 1933: the reason for this is that no accounts of that company for 1934 had been received. There was owing to Subsidiary D. by the holding company at 30th November 1933 the sum of £10,000 which is also the balance shown by the preliminary draft balance sheet of the holding company as at 31st December 1934. Apart from this, Subsidiary D. does not call for special comment at this stage.

It is of interest to note that had Subsidiary D. or either of the other subsidiary companies been incorporated abroad or by Royal Charter or special statute the company concerned would not have been excluded from classification as a subsidiary company under Section 127 of the Companies Act, 1929.

An amended draft balance sheet of the holding company which more correctly sets out the real position is given and will be referred to later.

A preliminary summary statement of the surplus assets of the four companies A., B., C. and D. is also given, as well as a detailed consolidated balance sheet and profit and loss account of the holding company and the subsidiary undertakings showing the workings in full, so that anyone who desires to see how the figures have been put together may be able to do so readily.

CHAPTER VII

METHOD (I)—THE LEGAL BALANCE SHEET

To publish only the Holding Company's own legal Balance Sheet showing its interests in subsidiary companies as an investment together with a Profit and Loss Account. The Balance Sheet would have annexed a statement showing how and to what extent the aggregate profits and losses of subsidiaries have been dealt with in the accounts.

Prior to the passing of the Companies Act, 1928 (now incorporated in the Companies Act, 1929), there were no legal enactments under the Companies Acts as to the form in which the annual or other balance sheets of companies should be presented. Thus, except in so far as the matter was dealt with in the Articles of Association of a company or by special legislation (as for instance in the case of assurance companies) it was left to the directors to determine the form in which the accounts of their company should be submitted to the members.

Under the Companies Act, 1929, the presentation of an annual balance sheet and profit and loss account is compulsory for all companies governed by the Act and there are provisions in regard to the information which is to be set out in the balance sheet. These general provisions apply to all companies incorporated under the Companies Acts, but it is not proposed to go into them here.

Special Information to be given in Legal Accounts

The 1929 Act also contains *special* provisions under which holding companies must give additional information in regard to certain items in their published accounts.

These special provisions which are examined in some detail later may be summarised briefly as follows—

(*a*) Shares in subsidiary companies.
(*b*) Amounts owing from subsidiary companies.

The aggregate amount of the shares in and amounts owing from subsidiary companies (distinguishing between shares and indebtedness)

must be set out in the holding company's legal balance sheet separately from its other assets (Section 125).

(*c*) Amounts owing to subsidiary companies.

The aggregate of any amounts owing to subsidiaries by the holding company must also be shown in the legal balance sheet separately from all the other liabilities (Section 125).

(*d*) Statement in regard to subsidiary company results.

Under Section 126 (1) of the Act a holding company is required to annex to its legal balance sheet a statement signed by the persons who sign the balance sheet stating how the aggregate profits and losses of subsidiary companies (made up to a date within the period covered by the holding company's accounts) have been dealt with for the purpose of those accounts.

In particular the statement is to show how and to what extent (i) provision has been made for the losses of a subsidiary in the accounts of the subsidiary or the holding company or both, and (ii) subsidiary company losses have been taken into account by the directors of the holding company in arriving at the profits and losses of the holding company as disclosed in its accounts.

The actual amount, however, of the profits or losses of any subsidiary or of any part of such profits or losses dealt with in a particular manner need not be specified.

(*e*) Qualifications in reports of auditors on balance sheets of subsidiary companies.

If the report of the auditors on the balance sheet of a subsidiary company is qualified, particulars of the qualification must be given in the statement referred to in (*d*) above appended to the balance sheet of the holding company (Section 126 (2)).

(*f*) Where information regarding subsidiaries is not available.

If for any reason the directors of the holding company are unable to obtain the information necessary for the preparation of the statement referred to in (*d*) above, they are to annex to the balance sheet a statement to that effect (Section 126 (4)).

(*g*) Particulars of directors' remuneration.

The total of the amount paid to the directors as remuneration for their services, which under Section 128 of the Act is to be shown in the accounts laid before the company in general meeting (i.e. not necessarily circulated to members unless prescribed by the company's regulations), must include all fees and emoluments paid to or receivable by them by or from any subsidiary company.

Advantages and Disadvantages of Publishing only the Legal Accounts

The presentation of a balance sheet in the legal form enables

the holding company to be viewed as a separate legal entity without complicating the position by the introduction of assets and liabilities of other companies, which although controlled by the holding company are nevertheless conducting business from a legal standpoint as separate concerns.

From the creditors' point of view a balance sheet prepared in this way is essential to enable them to form an opinion of the financial condition of the company against which they would have to proceed if occasion arose.

Again, if the holding company wanted to raise money on debentures or shares with a charge upon its own assets, it would find it necessary to prepare a balance sheet showing its own assets and liabilities alone before an accurate opinion of the security offered could be formed, although it might need to be supplemented by a statement of the net surplus assets of the associated undertakings.

The presentation of a holding company's balance sheet in the separate or legal form has the effect of limiting the information supplied in some directions, and it may be possible to regard this limitation as an advantage. Some would say, however, that the limitation is a distinct disadvantage, because directors should be induced to disclose to the members as much information as possible not only in connection with the concern in which the members are directly interested but also with the subsidiary companies in which their interest may be just as great although it is indirect. There is doubtless truth in this but it is also fair to say that the use of the legal balance sheet without amplification to some extent enables the directors where necessary to avoid the disclosure of vital information to competitors regarding the interests in subsidiary undertakings.

There is no doubt that the question of disclosure to competitors is of considerable importance and is often the deciding factor in considerations as to whether any change in the form of the published accounts shall be made. Shareholders as a

rule rely to an almost unlimited extent upon the advice tendered to them by the board of directors when such matters come forward for discussion.

Cases are not unknown where directors have seized on the alleged danger in disclosure to competitors as an excuse for concealing from the shareholders information to which they might well have had access without the affairs of their company being prejudiced in any way. Where information can be given with safety, disclosure is often found to bring advantages to the company. In recent years the directors of some important companies have recognised this and have given more information ; in others the shareholders themselves have awakened to their true interests in the matter and have asked for details. It must be admitted, however, that there still seems scope for a considerable advance in this direction by many undertakings. The legal accounts as prescribed by law are not always drawn up in such a way as to disclose facts which might with advantage be disclosed to the shareholders without in any way damaging the interests of the company.

The legal obligation which exists to show interests in subsidiary companies separately in the balance sheets of holding companies and to publish certain information of a limited character as to the results of those companies is useful if only as a step in the right direction. It does not, however, altogether recognise the practical nature of the relationship which so often exists between the holding company and its subsidiaries and sub-subsidiaries. Inasmuch as the parent concern merely owns the shares in its subsidiaries and not the assets of those concerns, it is difficult, of course, to justify such a recognition on legal grounds, but from a practical business standpoint the parent company does in many cases virtually own and actually control the surplus assets of its subsidiary concerns which the shares represent.

Where outside interests are not prejudiced it is by no means uncommon for the liquid resources of subsidiary companies to

be transferred to the parent company: in a large organisation this centralisation of finance is often necessary if the advantages of amalgamation are to be realised in full.

From this standpoint, therefore, there is much to be said in favour of amplifying the information supplied in the legal accounts, so as to give an indication of the financial position of the combined enterprise or of the combined subsidiary enterprises viewed as one entity. This should be done in those cases where it is considered by the directors that the legal accounts of the holding company do not in themselves give a full and fair statement of the position, as without such supplementary information the shareholders and creditors might be left in ignorance of the way in which their money was being employed, the profits or losses which subsidiary companies were making, the extent of the financial commitments of subsidiary companies ranking in priority to their own claims, and so on.

Shareholdings in Subsidiary Companies—How to be Set Out in Balance Sheet

It will be seen from Section 125 of the Act that where any of the assets of a company consist of shares in or amounts owing by subsidiary companies, the aggregate amount of those assets (distinguishing shares and indebtedness) must be set out in the balance sheet separately from all other assets.

The necessity for this requirement is clear when the preliminary draft balance sheet of the holding company in Appendix I is considered. Had the investments in British Government securities, etc., been included in the balance sheet under the same heading as the investments in subsidiary concerns it would clearly have been misleading if for no other reason than that Government stocks are of a readily realisable character probably acquired by way of temporary investment of cash resources, whereas investments in subsidiary concerns are not usually held for purposes of re-sale but are intended to be held and used for the purpose of earning profit.

Shareholdings in Subsidiary Companies are generally Fixed Assets

Except in rare cases, such as where a finance company temporarily acquires a controlling interest in another concern which is being disposed of immediately in the ordinary course of its business, or possibly when the assets of the subsidiary concerns are entirely of a current nature, investments in subsidiary companies would generally be regarded as being of the nature of fixed assets.

Section 124 of the Companies Act, 1929, requires a distinction to be made in the balance sheets of all companies between fixed and floating assets and the balance sheet must also show how the values of the fixed assets have been arrived at. In the case of a holding company, except in the rare instances just mentioned, it will therefore generally be necessary to indicate the basis on which the shareholdings in subsidiary companies have been valued for balance sheet purposes. Should no such indication be given it might be inferred that the shareholdings are regarded by the directors as being of the nature of current assets.

Description of Basis of Valuation

A form of wording suitable for stating the basis of valuation in the special circumstances of the case used in the illustration is shown in the amended draft legal balance sheet of the holding company set out in Appendix I. The shares are there described as " at cost " and a " Reserve for Losses of Subsidiary Company " is shown as a deduction from the aggregate book value of the shares in and indebtedness of subsidiary companies. The actual words which should be used to indicate the basis of valuation vary with the circumstances : thus if the losses were actually written off the shares would usually be described as " at cost less amounts written off."

Whether the names of the various subsidiaries and the numbers and denominations of the various shares held therein

should be set out fully on the face of the holding company's balance sheet (a matter on which the Companies Act gives no specific direction) depends on the circumstances of each case. In some companies the disclosure of this information might be both useful and desirable whilst in others it might afford no great aid to an appreciation of the holding company's position. In some circumstances disadvantages might accrue to the company through the disclosure of the information to competitors. The law only requires the aggregate amount of the shares in and indebtedness of subsidiary companies to be shown and the directors of the holding company have to decide whether their company's circumstances make it desirable or otherwise to amplify this by giving details.

Examples taken from published balance sheets showing the manner in which information as to shareholdings in subsidiary companies has been set out in practice are given later in this chapter.

Amounts Owing from Subsidiary Companies: How to be Set Out in Balance Sheets

Another important matter is the treatment of loans and advances to or debit balances on current or other accounts with the subsidiary undertakings.

As mentioned previously the holding company's legal balance sheet now has to show the aggregate amount of the indebtedness of such companies separately from all other assets. The law further requires an obviously desirable distinction to be made by all companies between fixed and floating assets. Consequently, in preparing their balance sheets, the directors of a holding company should, where possible, distinguish between advances to and other amounts of a permanent or *quasi*-permanent nature owing by their subsidiaries and those which they regard as current assets. They should also state the basis of valuation of the fixed asset portion of the amounts so owing. Should no such statement be given it might be inferred that the

account is considered to be of the nature of a current or floating asset.

This distinction between the fixed and current indebtedness of subsidiary companies is of some importance if the balance sheet of the holding company is to reflect as far as possible the liquid financial position of the concern.

It may be thought that the indebtedness of a subsidiary company should always be regarded as a current asset, because there is nothing to prevent the subsidiary company from making fresh capital arrangements to enable it to repay the advance by the parent concern when that is considered desirable : this may be true in theory, but in practice, unless some such step is already in course of being taken, it is clearly undesirable to describe as a floating asset a debt that can only be collected after the debtor has made new financial arrangements.

Subsidiary companies which are extending their businesses are often financed by means of loans from the holding company rather than by the raising of additional capital. The amounts owing by them to the parent concern may thus represent loans obtained to meet capital expenditure (which may not be realisable for a long period if at all) or for the purpose of financing the repayment of capital liabilities such as debentures, the meeting of trading losses, or the carrying of larger stocks, etc. Loans of this character could not be regarded as current assets from the standpoint of the holding company.

Distinction between Fixed and Current Indebtedness

In considering how the indebtedness of subsidiary companies should be divided as between fixed and current assets in preparing the legal balance sheet of the holding company it therefore becomes necessary to consider what the various balances actually represent in the subsidiary companies and whether they can be immediately repaid out of the net current assets of those companies. In many cases the indebtedness to the holding company is as much a part of the fixed capital of

the subsidiary company as that represented by shares in the hands of the parent company, and where this is so it should clearly not be treated as a current asset in the balance sheet of the holding company.

Speaking generally, the "fixed asset" category should be considered as comprising not only debentures and debenture stocks of subsidiaries held as investments by the parent company and loans secured collaterally by such holdings or granted for purposes of capital expenditure or development, but also all amounts owing by subsidiaries which are not expected to be paid in the ordinary course of business. In setting out such items in the legal balance sheet it is not necessary to use the description "fixed assets" but merely to show them in such a way as to indicate that they are not in the category of current assets.

Only such amounts as may reasonably be expected by the directors to be paid in the ordinary course of business could properly be regarded as of a current character.

In practice it is not always possible to determine what portions of the indebtedness of subsidiary companies should be regarded respectively as fixed and current and it sometimes becomes necessary to group the balances under some heading such as "Loans to and Current Accounts of Subsidiary Companies—at cost."

Amounts owing by Subsidiary A

In the example in Appendix I it will be seen that from a practical standpoint the bulk of the amounts owing by Subsidiary A. to the holding company is represented by losses or fixed assets.

Although from a legal standpoint the holding company would be entitled to rank with the outside creditors after discharge of the debenture stock if Subsidiary A. should be liquidated, it might not be in the interests of the holding company that this subsidiary should be placed in liquidation. That this is so appears to be indicated by the item "Stocks" in the balance sheet, which suggests that Subsidiary A. is an

important outlet for the goods of Subsidiary B. For business or other reasons it is possible, therefore, that the holding company might decide to make itself responsible for the payment of the outside creditors of Subsidiary A. and far from receiving money might have to increase largely the amount of its advances to that company. Clearly it would be difficult to regard as a current asset in this case any amount other than a sum which could be safely taken as likely to be received in the ordinary course of business.

Names of Subsidiaries need not be given

As the law does not require the name of any company or the amount of the indebtedness of any company to the holding company to be specified, the name of Subsidiary A. need not be given in the holding company's Balance Sheet. All that it is necessary to show is the *aggregate* amount of the assets represented by shares and indebtedness, distinguishing shares from debts and fixed from floating assets and also stating the basis of valuation of the fixed assets.

Examples from Published Accounts

The following examples which have been taken from the published accounts of some well-known public companies show the manner in which those companies set out particulars of shares in and amounts owing from subsidiary companies in their balance sheets :—

Example I.

INVESTMENTS AT COST, LESS RESERVES—		
Subsidiary Companies	£	
Associated Companies	£	
		£
LOANS TO AND CURRENT ACCOUNTS WITH—		
Subsidiary Companies (including Dividends to be received)	£	
Associated Companies (including Dividends to be received)	£	
		£

Example 2.

INVESTMENTS AT COST, viz.—

Subsidiary Companies :

As per Balance Sheet 31st December 19.. .. .. £

Acquired in 19.. .. .. .. £

Associated Companies : £

As per Balance Sheet 31st December 19.. .. .. .. £

—— £

LOANS AND CURRENT ACCOUNTS—

Subsidiary Companies (including Dividends receivable) .. .. £

.... £

—— £

Example 3.

DEBTORS AND PAYMENTS IN ADVANCE—

Amounts owing by Subsidiary Companies :

Loans .. .. .. £

Current Accounts .. £

Final Dividends for 19.. £

—— £

.... £

.... £

—— £

INVESTMENTS AT COST—

Trade Investments .. .. £

Shares in Allied Companies .. .. .. £

Shares in Subsidiary Companies .. .. £

—— £

Example 4.

INVESTMENTS IN AND AMOUNTS OWING FROM SUBSIDIARY COMPANIES—

Shares as valued in 19.. with subsequent additions at Cost .. .. £

Debentures (Nominal £......) at Cost less amount repaid .. .. £

Advances and Current Accounts .. .. £

—— £

Example 5.

SHARES IN AND AMOUNTS DUE FROM SUBSIDIARY COMPANIES, AT COST LESS AMOUNTS WRITTEN OFF—

In England :

Shares .. .. £

Less : Written off to Capital Deficiency Account .. .. £

——

£

Amounts due on Loan and Current Accounts .. .. £
Less: Written off to Capital Deficiency Account .. £ £
£

Note.—A loan of £...... (being one of the above loans due from subsidiary companies) has been assigned in consideration of a loan of £...... granted to the Parent Company shown per contra.

In and relating to France—

Shares .. .. .. £
Amounts due on Loan and Current Accounts .. £

£
Less: Written off to Capital Deficiency Account .. £

Note.—In arriving at the values placed on the shares in and amounts due from subsidiary companies there have been taken into account all losses ascertained prior to or subsequent to the date of the balance sheet and consideration has been given to the contingent liabilities. As the present values of two subsidiary companies are unascertainable, they have been included above at book values.

Example 6.

INTERESTS IN SUBSIDIARY COMPANIES—
Shares at Transfer Consideration (Including A. Bros. Ltd., £......) .. £
Amounts owing from Subsidiary Companies Capital Loans, Advances and Current Accounts (Including A. Bros. Ltd. £......) .. £
£
Less: Special Investment Reserve .. .. £
£

CONTINGENT LIABILITIES—

Guarantee of Bank Overdraft of A. Bros. Ltd. £
Guarantee of Bank Overdraft of a Foreign Subsidiary Company .. .. .. £
Uncalled Capital of Subsidiary Companies £

£

Note.—Progress has been made in modernising the equipment of A. Bros., Ltd., but the directors are still not in a position to assess the value of the company's interests in that company.

Example 7.

SUBSIDIARY COMPANIES—

Shares and stock being the excess of the assets over the liabilities	£	
Amount owing on current account	£	
		£

Example 8.

SHARES IN AFFILIATED COMPANIES—

A. Co. Ltd.		
......Shares of £.... each, £.... paid ..	£	
Reserve and Undivided Profits	£	
		£
B. Co. Ltd.		
......Shares of £.... each, £.... paid ......Shares of £.... each, fully paid	£	
Reserve and Undivided Profits ..	£	
		£
C. Co. Ltd.		
......Shares of £.... each, £.... paid ..	£	
Reserve and Undivided Profits	£	
		£
D. Co. Ltd.		
......Shares of £.... each, £.... paid ..	£	
Reserve and Undivided Profits	£	
		£

Example 9.

SHARES IN AND LOANS TO SUBSIDIARY COMPANIES		£
Shares at Directors' valuation of......19.., less amounts written off, with additions at cost and including the Company's proportion of the undistributed profits, less losses, partly estimated.		
Soap and Perfumery Companies ..	£	
West African, Plantation, Oil Milling and other Raw Material Producing Companies	£	
Edible Products Companies	£	
Land, Transport and Investment Companies	£	
Capital Loans	£	
Advances on Current Account.. ..	£	
	£	

Example 10.

SHARES IN AND AMOUNTS OWING FROM SUBSIDIARY COMPANIES—(AT COST LESS AMOUNTS WRITTEN OFF UNDER CAPITAL REDUCTION SCHEME AND PROVISION FOR TRADING LOSSES)

Shares .. .. £
Debentures, Loans and Current Account .. £
£

Notes.—

(1) The shares in and amounts owing from subsidiary companies are stated on the basis of cost less amounts written off under the capital reduction Scheme of 19.. and provision for the trading losses of Operating Companies since incurred. During 19.. the subsidiary companies in the aggregate incurred further trading losses and the values standing in the Balance Sheet are, under existing conditions, subject to consideration in this respect.

In the case of one subsidiary a reduction of capital was effected during 19.. but the capital loss represented thereby has not been written off in the above account.

No income has been received for 19.. in respect of the Investment in A. Co., Ltd.

(2)..

Example 11.

INVESTMENTS IN SUBSIDIARY COMPANIES AT COST £
AMOUNTS OWING BY SUBSIDIARY COMPANIES
Advances—Capital Account .. .. £
Current Account (including Dividends receivable) .. .. £
£

Example 12.

SHARES AND DEBENTURES IN SUBSIDIARY COMPANIES (SEE NOTE A)
Shares .. .. £
Debentures .. .. .. £
£

ADVANCES TO SUBSIDIARY COMPANIES FOR CAPITAL EXPENDITURE AND GENERAL DEVELOPMENT (LESS AMOUNTS WRITTEN OFF) £

£

Less : Amounts written off in 19.. £
" " " £
£
£
Less : Debts due to Subsidiary Companies .. £
£

DIVIDENDS (LESS TAX) FROM SUBSIDIARY COMPANIES IN RESPECT OF 19.. INCLUDED IN PROFIT AND LOSS ACCOUNT £

Note A—These investments have been taken at cost or as revalued on the basis of earning capacity on the liquidation of A. Co., Ltd., in 19... less amounts written off.

Note B—.................................

Example 13.

INVESTMENTS IN SUBSIDIARY COMPANIES
At values placed thereon by the Board .. £

DEBTORS, BILLS RECEIVABLE AND PAYMENTS IN ADVANCE—
(including £...... owing by Subsidiary Companies)

Example 14.

SHARES IN SUBSIDIARY COMPANIES AT COST, LESS AMOUNTS PREVIOUSLY WRITTEN OFF	£	
Less: Further amount written off to General Reserve Fund, per contra	£	
		£
....	£	
AMOUNTS OWING BY SUBSIDIARY COMPANIES (INCLUDING DIVIDENDS FOR THE YEAR 19..) ..	£	
		£

Example 15.

SUBSIDIARY COMPANIES—

Shares in Subsidiary Companies at Cost, less amounts written off and Reserve ..	£	
Amount due from Subsidiary Companies, less Reserve	£	
		£

Example 16.

INVESTMENTS—

....	£
....	£
Shares in Subsidiary Reversionary Company at actuarial valuation at 31st December 19..	£
Shares in Subsidiary Companies at cost or under	£
....	£
AMOUNTS DUE FROM SUBSIDIARY COMPANIES	£
SUBSIDIARY COMPANIES' UNDISTRIBUTED PROFITS	£

Example 17.

SHARES IN SUBSIDIARY COMPANIES, AT OR UNDER COST		£	
AMOUNTS OWING FROM SUBSIDIARY COMPANIES (INCLUDING DIVIDENDS SINCE DECLARED)	£		
Less: AMOUNTS OWING TO SUBSIDIARY COMPANIES ..	£		
		£	
....		£	£

Example 18.

SUBSIDIARY COMPANIES—

Shares at Cost less amounts written off, including undistributed profits less losses (Uncalled Liability £......)	£	
Amounts owing by Subsidiary Companies ..	£	
		£

Note.—In the opinion of the directors the company's fixed assets including its total interest in subsidiary companies cannot be regarded as worth the book value shown. The French subsidiary company is in course of liquidation, and no value can be attributed to the item "Cost of establishing an Overseas Business, &c." which appears below.

Example 19.

AMOUNTS DUE BY SUBSIDIARY COMPANIES, INCLUDING DIVIDENDS DECLARED SUBSEQUENT TO 30TH JUNE 19..		£
....		£
INVESTMENTS—		
(*a*) Sundry Securities and Shares in Associated Companies, at cost	£	
(*b*) Shares in Subsidiary Companies, at cost	£	
		£

Note.—In the aggregate the market value of investments at 30th June 19.. is in excess of the book value.

Example 20.

SUBSIDIARY COMPANIES—		£
Shareholdings at cost less amounts written off	£	
Debentures at cost	£	
Amounts owing (including dividends receivable) less amounts written off	£	
	£	

Example 21.

SHAREHOLDINGS IN SUBSIDIARY COMPANIES—		
A. Co. Ltd.—£...... Ordinary Stock, at cost	£	
B. Co. Ltd.—£...... Stock, at cost ..	£	
C. Co. Ltd.—£...... Stock, at cost.. ..	£	
D. Co. Ltd.—		
...... 7 per cent. Preference Shares of £1 each, fully paid, at cost	£	
		£

Note.—These holdings are shown at the cost to this company, viz. at the nominal value of the stock issued by this company, together with the cash payments for fractions and stamp duty. The dividends for the year 19.... (£........) represent.. per cent. on such cost.

SUNDRY DEBTORS—	
Amounts due from Subsidiary Companies (in respect of dividends subject to confirmation of General Meetings of the Companies concerned)	£
Amounts due from Subsidiary Companies on Current Account	£

Amounts due from Associated Companies on Current Account .. .. .. £
Other Debtors .. .. £
—————£

Example 22.

SUBSIDIARY COMPANIES—

Shareholdings at Cost less Amounts written off .. .. £
Advances (mainly of a permanent nature) less reserves .. .. £
—————
£
Less: Amounts owing to Subsidiary Companies .. .. £
—————£

Example 23.

INVESTMENTS IN AND ADVANCES TO SUBSIDIARY COMPANIES—

Shares acquired by Purchase or in Exchange for the Company's Shares
At Cost or on the basis of Market Value at date of exchange, less amounts written off .. .. £
Debenture Stock, at cost .. .. .. £
Current Accounts and Dividends to be declared in respect of the year 19.. .. £
Undistributed Profits (including allocations to Reserve Fund) of a Subsidiary, earned since the acquisition of its entire Share Capital by the Company .. .. .. £
—————£

Example 24.

INVESTMENTS IN SUBSIDIARY COMPANIES—

At values placed thereon by the Board .. £

DEBTORS, BILLS RECEIVABLE AND PAYMENTS IN ADVANCE (including £...... owing by Subsidiary Companies) .. .. £

Method of showing shares in and indebtedness of subsidiaries in Appendix I

In the example in Appendix I the information as to the interests in subsidiary companies has been set out in the amended draft legal balance sheet of the holding company in the following way :—

Shares in and Amounts owing from Subsidiary Companies:—	
Shares—at cost	£1,224,500
Amounts owing:	
Debenture Indebtedness, Loans, etc. At cost	£1,215,000
Current Indebtedness, including Dividend for 1934 declared since date of Balance Sheet	£ 19,400
Undistributed Profits	£ 25,373
	£2,484,273
Less Reserve for Losses of Subsidiary Company	526,250
	£1,958,023

It will be seen that the aggregate amount of the assets representing shares and indebtedness of subsidiary companies as required by Section 125 of the Act is shown by including in the legal balance sheet a main heading described as "Shares in and Amounts owing from Subsidiary Companies." This is subdivided so as to show as required by the Section the distinction between shares and indebtedness. The indebtedness has been again subdivided to take account of the fact that certain portions are not of a current nature and from the aggregate of the shares and indebtedness a reserve equivalent to the losses sustained by Subsidiary A has been deducted.

Indebtedness of a Fixed Asset Character

The Debenture Indebtedness, Loans, etc., are described in this case as "at cost": had amounts been written off, the asset might have been described as "at cost less amounts written off" or other wording used according to the circumstances.

In the case quoted in the example no distinction has been made in the holding company's balance sheet between debentures and other indebtedness of a "fixed asset" character. In the case of Subsidiary A., in which the holding company has

subscribed for £250,000 debenture stock, the holding company is continuing to finance the subsidiary and has no intention of relying on its security to the detriment of other creditors. In view of this, the separate statement of the nominal amount of its security appears to be unnecessary. In other cases, however, the separate statement of the secured indebtedness of subsidiaries might help to show the position more clearly.

Questions sometimes arise where the policy of writing down the interests in subsidiary companies in the holding company's books is adopted instead of carrying to a reserve account the provisions which are made by the holding company in respect of losses incurred by subsidiaries. The Act requires the "aggregate amount" of the indebtedness to be shown, but does not specify whether this means the nominal value of the claims (in the case of the illustration in Appendix I this is £1,215,000) or the reduced amount at which the indebtedness would be stated if the policy of writing down were adopted (in the case of the illustration this amount would—see page 169—be £731,250). Whether the nominal amount should always be shown in cases where the legal claims of the parent concern against its subsidiaries exceed the amount at which the debts are carried in the holding company's books is, therefore, not clear, but would appear to depend on the circumstances.

In some cases the statement of the nominal value of the claims against the subsidiary concerns might be of assistance to the members in examining the balance sheet of the holding company, but in other cases no great advantage might be derived from its insertion.

Current Indebtedness

The amount of £19,400 shown in the example as "Current indebtedness" represents the amount immediately receivable in cash, including the final dividend declared by Subsidiary B. between the date of the holding company's balance sheet and the time when it was drawn up. It is a usual but not invariable

practice for a holding company to take up as dividends receivable any dividends declared by its subsidiaries out of their earnings in periods ending at or prior to the date of the holding company's own balance sheet. Where the practice is adopted it is usual to arrange for the subsidiaries to make the formal declarations of their dividends prior to the date when the holding company's accounts are signed, and on this being done to bring in the amounts thereof as current indebtedness in the holding company's balance sheet, as has been done in the illustration.

Undistributed Profits

"Undistributed profits" is the term used to describe the earnings of the subsidiary companies attributable to the shares owned by the holding company since they were acquired by the holding company but not yet declared in dividend. From a legal standpoint such amounts are not actually owing to the parent concern, although from a practical standpoint the holding company could use its control over the subsidiaries so as to ensure these profits being declared in dividend. Such undistributed profits are as much a part of the general results of the combine's operations as those which have been drawn in cash from the subsidiaries by way of dividend. Where the practice of the holding company is to take up the undistributed profits in its accounts it is desirable in view of the legal position, however, to show them as a separate item in the holding company's balance sheet. Incidentally it should perhaps be mentioned that these undistributed profits should not be declared in dividend by the holding company.

Reserve for Losses of Subsidiary Company

The amount of £526,250 shown in the illustration under the description of "Reserve for Losses of Subsidiary Company" represents the amount charged in the Holding Company's own profit and loss account and set aside to represent the hold-

ing company's provision in respect of the losses of Company A. Sometimes the reserve is carried on the liabilities side of the holding company's balance sheet instead of being deducted from the aggregate of shares and indebtedness. In other cases the provision is applied to write off first the shares and then the indebtedness; had this practice been followed in the case of the illustration the shares would have been written down to nil and the balance of the provision would have been applied to write down the indebtedness to £731,250. The relative merits of these two methods of dealing with the matter are discussed in Chapter X.

Inter-company Profits on Unsold Stocks

In the illustration shown in the appendix the undistributed profits accruing to the parent company are stated after deducting the holding company's proportion of the profit taken by Subsidiary B. on stock transferred by it to Subsidiary A. but remaining unsold in the hands of that subsidiary at the date of the balance sheet. From the standpoint of the parent concern and of the combine as a whole this profit (although properly taken by Subsidiary B. as a separate legal entity) has not been realised and should be eliminated in calculating the profits of the combine for the year and in considering the holding company's interest in Subsidiary B.

In some cases holding companies themselves take profit on sales of goods to their subsidiaries. In those cases the profit so taken on goods which at the date of the holding company's balance sheet remain unsold in the hands of the subsidiaries is written back from the holding company's profit and loss account to a suspense account. The balance on the suspense account is either shown separately on the liabilities side of the holding company's balance sheet, or is deducted from the amounts owing by subsidiary companies. In the case of the illustration in the appendix, had Subsidiary B.'s balance of profits been insufficient to cover the amount to be eliminated

the necessary provision might have been included amongst the liabilities in the parent company's accounts.

Amounts owing to Subsidiary Companies

As has already been mentioned the law requires the aggregate indebtedness of a holding company to its subsidiary companies to be stated separately from its other liabilities in the balance sheet (Section 125).

No directions are given in the Act as to the precise manner in which the separate statement of the liabilities to subsidiary companies shall be effected. Some companies have adopted the practice of showing the aggregate of those balances as a deduction from the aggregate of the shares in and amounts owing from subsidiary companies (see, for instances, the Examples 12, 17 and 22 on pages 49 to 52). This practice has the effect of showing in summary form the net book value of the holding company's interests in its subsidiary undertakings The majority of holding companies show their obligations to subsidiary companies on the liabilities sides of their balance sheets and do not follow the practice just described.

In calculating the aggregate indebtedness to subsidiary companies for the purpose of inserting it in the balance sheet, amounts due to and by the same subsidiary company should be set off against one another, but should not be deducted from amounts due from or to other subsidiaries. While the latter may be related transactions they are distinct in the sense that on a winding-up there is no set-off and the liabilities would have to be paid to the one company and the advances collected from the other concerns.

A point that should be noted is that inasmuch as the Companies Act requires the aggregate indebtedness to subsidiary companies to be shown, it follows that if any subsidiary owns debentures or debenture stock of the holding company the latter should include the nominal amount thereof in its balance sheet under the heading of " Amounts owing to Subsidiary

Companies." In the *pro forma* accounts in Appendix I, Subsidiary B. owns £25,000 of the holding company's debenture stock and in preparing the amended draft legal balance sheet of the holding company this has been so included. The £25,000 has, however, not been extended into the total column under that heading as this would have involved reducing the amount of the debenture stock outstanding as shown in the balance sheet.

Although the law does not require it a note has been inserted in the holding company's legal balance sheet in Appendix I stating the aggregate number of shares of the holding company which are owned by Subsidiary Company B. This note enables shareholders to determine for themselves what is the amount of the share capital of the holding company which is held by the public. If the holding of shares by Subsidiary B. had been a material proportion of the capital it might have been necessary to take special precautions in preparing the profit and loss account of the holding company so as to distinguish credits to revenue arising from the trading of the company and its subsidiaries and dividends representing the return by Subsidiary B. to the parent company of dividends received by Subsidiary B. on its shares in the parent concern. In the illustration this question does not arise as no dividend was paid by the holding company on its ordinary shares and none is, therefore included in the revenue of Subsidiary B. for the year.

CHAPTER VIII

METHOD (I)—THE LEGAL BALANCE SHEET (cont.)

Interests in Subsidiaries usually Entered in Balance Sheet in First Instance at Cost

The procedure with respect to setting out the various items in the legal balance sheet has been outlined in the previous chapter. It is now proposed to consider the amounts at which the investments, advances, etc. should be stated.

The interests in subsidiary companies may have been acquired in a variety of ways. Some, for example, may have been obtained wholly or partially for cash or in exchange for other assets and/or the assumption of liabilities, whilst others may have been acquired in exchange for the holding company's own shares issued for the purpose.

It is usual to enter the investments in the holding company's books in the first instance at cost. Circumstances may call for adjustment later, if, for example, trading losses are sustained by the subsidiaries, but in determining the initial book value to be attributed to the shares and other interests in subsidiary companies the same accounting principles apply as those which determine the initial book values of other assets such as plant or buildings, i.e., they are entered in the books at the amounts paid for them.

Cost of Shareholdings where Consideration is Exchange of Holding Company's Shares at a Premium

Cases arise from time to time which call for special consideration in determining what is the cost of shares to be entered in the books. These cases arise particularly where the holding

company's own shares are issued in exchange for the shares acquired. If, for example, the holding company's shares have a readily ascertainable market value and this represents a premium over the par value of the shares to be issued, it may well be that the true cost to the holding company is not the par value of the shares issued by it but the market value of those shares. The premium in such a case could properly be carried to share premium account and the cost of the shares in the subsidiary company could be entered in the holding company's books at the market value of the shares issued in exchange.

It sometimes happens, however, that there is no objective standard by which the value of the consideration given by the holding company for shares in a subsidiary company can be determined. The absence of a free and active market in the holding company's shares or the issue of so large a number of those shares as to alter radically the basis of valuation thereof are instances of this. In such cases it may well be that the most satisfactory method of dealing with the matter would be to enter the subsidiary company's shares at the nominal or par value of the holding company's shares issued in exchange. Whether this should be done in any particular case would depend upon the circumstances of that case and careful consideration of all the relevant facts would be called for.

In cases where an amount in excess of the nominal value of the holding company's shares is entered as the cost of the shares acquired, the question arises whether the premium entered in the share premium account is available for revenue purposes. Subject to any relevant provisions in the Company's Articles of Association, it would appear that such a premium would be so available; it must be remembered, however, that the premium has not been received in cash but is represented by assets, the values of which may be, and probably are, subject to variation.

Treatment of Earnings of Subsidiaries up to Date of Acquisition

There is a further important point to be borne in mind in considering what is cost, viz. that all dividends received from any of the subsidiary undertakings distributed out of their surpluses existing at the time when their shares were acquired should be deducted from the " cost " of the shares or carried to a capital reserve in the parent company's accounts.

When a holding company acquires the shares of a subsidiary concern it acquires, in effect, the equity in the surplus of assets over liabilities at that time. The price of the shares is assumed to have been fixed after considering the then existing value of the assets including goodwill. Looked at in another way, the holding company bought and paid for any credit balances on profit and loss or other reserve accounts existing at the time, and it would obviously be incorrect for the holding company to treat any distribution of these as its own income.

A dividend paid out of these assets (or out of the reserves whichever way it is regarded) is a payment to the holding company of a portion of the assets acquired, or, in other words, a return of some part of the purchase money, and other things being equal, the shares of the subsidiary undertaking are in consequence of a less value than they were at the time they were purchased.

In the accounts of the constituent concern the surplus of assets at the date of acquisition might be represented by a balance on profit and loss account or by reserve funds or surpluses on other accounts, and it would be within the power of each of the subsidiary companies to declare dividends out of such surpluses. These dividends in the hands of the holding company are not earnings and should be credited in reduction of the cost of the shares acquired or carried to capital reserve. In short, as far as earnings of subsidiary undertakings are concerned, the holding company can only make profits and declare dividends out of those arising subsequent to the date

of purchase. There is an illustration of this in the example in Appendix I in the case of Subsidiary B., where it will be seen from the balance sheet of that company that a dividend was paid out of the profits earned before the date of purchase of the shares by the holding company, and, consequently, in the hands of the latter this dividend is a reduction of the cost and has been so treated.

It is of the utmost importance when examining a balance sheet of a holding company at any date that this point should be investigated. It should be seen that the aggregate net surpluses of all subsidiary undertakings, no matter on what account, in existence at the time of their purchase (after making due allowance for dividends since received and credited in reduction of cost of shares or to capital reserve as mentioned above) are still available to an amount not less than that total. If this is not so, it will be due to subsequent losses and reference should be made thereto in the holding company's balance sheet or in the statement regarding subsidiary companies attached thereto and/or in the auditor's report if the circumstances of the case so require.

In investigating the position, if, for example, an old reserve of one subsidiary company has been declared in dividend to and treated as income by the holding company, no exception would necessarily be taken to this provided profits of equivalent amount have been made subsequent to the date of purchase by other subsidiaries and have not been distributed. That is to say, the subsidiary undertakings could generally be regarded as a whole and need not be treated separately, subject, however, to the comments made later under the heading of "Balance Sheets of Subsidiaries show Losses since Acquisition."

Where negotiations for the purchase have extended over several months, and it is finally arranged to date the purchase back and base it upon the balance sheet at the close of the last financial year on the understanding that the earnings for the current period are to belong to the purchaser, difficulties

occasionally arise in ascertaining the surpluses of subsidiaries which from the standpoint of the parent company are to be regarded as capital. Profits (or losses) will have accrued meanwhile, and it is then a question of fact how far, if at all, these profits have entered into the price finally agreed upon. It would not seem unreasonable to treat the earnings for the current year as income of the purchaser unless they have been included in the purchase price and consequently paid for by him. Cases are not unknown where the articles of association of companies formed to acquire shares in other companies in such circumstances contain clauses providing for the payment of dividends out of profits earned prior to incorporation.

Where interest is paid upon the amount of the consideration, as, for example, from the date of the prior balance sheet, it must, of course, be charged against the profits of the current year belonging to the purchaser.

In determining what are the combined post acquisition profits of subsidiaries which the holding company can properly treat as income it is sometimes necessary to make adjustments of the profits and losses shown in the accounts of the subsidiaries. These include adjustments necessary in order to take account of differences in the bases upon which the several subsidiaries prepare their balance sheets (e.g. in regard to stock valuations, income tax and depreciation provisions, etc.) or of changes in the bases of balance sheet valuations introduced subsequent to the acquisition. It is obviously desirable from the merger standpoint that bases of valuation for balance sheet purposes should be used by all the units of a holding company group, but this is not always practicable, particularly where the minority interest in any subsidiary is considerable. Where uniformity is not obtained, appropriate adjustments may be needed in order to ascertain the combined profits earned by the group since acquisition. Similarly where, for example, a new basis of stock valuation comes into use by a subsidiary subsequent to the acquisition of its shares by the holding company, the true

earnings of the group can only be determined after making adjustments so as to put the asset valuations at the date of acquisition on the same basis as that in subsequent use. In examining the accounts of a holding company group it is necessary to bear in mind the foregoing considerations in order to ensure that the profits of subsidiaries treated by the parent company as income are not in excess of the combined earnings since acquisition.

Interests in Subsidiary Companies—How far Proper to Retain in Balance Sheet at Cost

It has already been mentioned that in the first instance a holding company's interests in its subsidiaries should be taken into its books at cost. The question naturally arises whether they should be subsequently retained in the holding company's books on that basis, and if not under what circumstances a different basis should be utilised. An answer to this question can only be given after the facts of the individual case have been investigated and considered.

It may be premised in the first place that except in rare cases the shares owned by a holding company in its subsidiary companies may be regarded as fixed assets, just as much as the capital which is invested in land, buildings, plant, machinery and other assets which are held not for the purpose of realisation but intended to be retained for the purpose of earning profits for the holding company. The same accounting principles should therefore generally be applied in dealing with balance sheet valuations of interests in subsidiary companies as are applied in dealing with those of other fixed assets.

It may be said that the balance sheet should take into account the market value of the shares in subsidiary companies, indicated in some cases by the prices at which dealings take place in shares owned by the minority shareholders in the company, and in others by a consideration of the yield in the shape of dividends received in relation to the total book value of the

shares. It should, however, be pointed out that quotations arising from transactions in shares owned by minority interests are rarely a fair guide to the amount which could be realised by the sale of a large block of shares such as would be held by a holding company. It may almost be said that the existence of market quotations for shares held by other persons may be no indication of the market value of the holding company's interests. This is quite apart from the fact that there is presumably no intention in most cases of disposing of the shares, and that therefore annual fluctuations in realisable value may have little practical bearing upon the value of the shares to the holding company.

With regard to the dividend yield basis, this also is not necessarily a fair guide. Questions of holding company policy enter into a consideration of the matter and it frequently happens that for reasons of such policy business or profits are diverted from one subsidiary company to another subsidiary company or to the parent company, with the result that the profits shown by a particular subsidiary company's accounts do not necessarily afford a fair indication of the value to the holding company of its interests in the subsidiary. The acquisition of control of the subsidiary may have enabled the holding company itself to obtain profitable connections with customers or to make its own factories more profitable. In this event the indirect benefits obtained from the acquisition may fully justify the price paid for the subsidiary company's shares although the dividends received from that company may be small.

If the interests in subsidiary companies are regarded as fixed assets then a departure from the cost basis of valuation for balance sheet purposes would only be made in circumstances similar to those which would justify a departure from the cost basis in the case of the other fixed assets of the company. It is unusual to make an annual revaluation of fixed assets for balance sheet purposes or to write up the book value of those assets to an amount exceeding cost. It is usual, however, to

reduce the book value below cost so as to take account of depreciation which has occurred as the result of wear and tear or obsolescence. This is sometimes done by setting up a reserve for depreciation instead of actually reducing the cost figures carried in the books.

Applying this principle to the case of interests in subsidiary companies it would be proper in normal circumstances to retain those interests at cost provided that the position of the subsidiary undertakings taken as a whole has not changed for the worse since their dates of acquisition. For example, that trading losses have not been incurred by them other than those for which provision has been made by the holding company—either by direct provision in its own accounts or by causing successful subsidiary companies to retain profits equivalent to losses sustained by other subsidiaries. In other words, it must be seen that the aggregate surpluses in existence at the date when the shares were acquired are still available : if these are intact there would in the ordinary case be no necessity to make any departure from the cost basis of valuation for balance sheet purposes.

Circumstances sometimes arise where assets such as plant and machinery, which would normally be regarded as fixed assets, are held for disposal and are no longer intended to be retained and used for the purpose of earning profits. In these cases it may well be that the realisable value of the assets should be estimated and provision should be made for any loss involved in a reduction of their book value. Similarly, where a subsidiary company's shares cease to be held by the holding company for the purpose of earning profits and are held for the purpose of realisation, the cost basis may no longer be suitable and it may become necessary to estimate the realisable value of the shares and make any appropriate writing down by a provision out of the profits of the holding company.

There are other circumstances such as the occurrence of material capital losses in a subsidiary company which may make

it necessary that those losses should be reflected in the accounts of the parent company, and the cost figure at which the interests in subsidiary companies are carried should be reduced for that purpose. It is not practicable to deal with those circumstances in detail here, but sufficient has already been said in these pages to indicate that in every case the position of the subsidiary companies requires careful consideration in order to determine whether any departure from the cost basis need be made in preparing the balance sheet of the holding company.

Examination of Balance Sheets of Subsidiaries

To determine whether the cost basis is suitable in any particular case naturally involves an inquiry into the balance sheets of the subsidiary companies in order to obtain the necessary information. This is sometimes rendered difficult by the fact that the directors and auditors of the holding company do not necessarily act respectively as directors and auditors of the subsidiary undertakings, or that the subsidiary concerns have not adopted a uniform basis of accounting. In such cases the directors and auditors of the holding company may have before them only the certified accounts of the subsidiaries, supplemented by such other information as they are able to obtain from inquiries.

In this connection the following points should be borne in mind and investigation should be made to ascertain whether there are any errors of principle in the subsidiary companies' balance sheets looked at from the standpoint of the parent company or the consolidation as a whole, whether the subsidiary companies have prepared their stock valuations, etc., on comparable bases, whether dividends have been paid by a subsidiary company without making adequate provision for depreciation of plant, etc., having regard to the price paid by the holding company for the shares, whether there are any contingent liabilities of the holding company for guarantees, such as of a note issue or bills of a subsidiary undertaking, and so on.

The necessity for making depreciation provisions on a basis which takes into account the price paid by the holding company for shares in subsidiaries may be important. The fixed assets of a subsidiary are sometimes found to be carried in its balance sheet at values less than those at which they were assessed in fixing the price paid by the holding company for the subsidiary company's shares, i.e. the cost of the fixed assets to the combine. From the standpoint of the combined business this cost should be taken into account in determining the depreciation charged in computing the profits of the holding company available for dividend. When the accounts of the subsidiary are kept in a foreign currency which fluctuates considerably in terms of sterling this factor may also need to be taken into consideration in reviewing the depreciation problem.

After the purchase of the shares by the holding company, the subsidiary concern may have made no adjustment in its balance sheet values to bring them into accord with the revaluations, and in arriving at the profits available for dividend to the holding company the subsidiary may have properly continued to charge provisions for depreciation calculated on the old book values.

From the standpoint of the combine as a whole these provisions might in some cases be insufficient. In such cases some portion of the dividends received from the subsidiary companies might be set aside in the holding company's accounts as a reserve for additional depreciation on the capital assets of those concerns.

The directors of the holding company in considering the amount which should be carried to a reserve of this character would be entitled to view the combine as a whole and to set off any excessive depreciation provisions made by other subsidiary companies.

The liability of the holding company under guarantees also requires special consideration.

It is not unusual to find that the dividend on the preference shares of one or more of the subsidiary companies has been

guaranteed by the parent concern, and, if the individual profits of these undertakings are not sufficient to meet the dividends, the charges would necessarily fall upon the parent company. In the example in Appendix I, if the holding company had guaranteed the dividend on the preference shares of Subsidiary A., the note on that company's balance sheet in regard to arrears of dividend would not have appeared, as the dividend would have been discharged out of the holding company's profits.

Present Position of Subsidiaries

The inquiry being completed, a statement should be prepared showing the present position of the subsidiary companies (taken together) from the standpoint of the parent concern. A special object in preparing this statement is to see how far the position has improved or changed for the worse since they were acquired, that is to say, whether, taking them as a whole, there are profits still undistributed or losses for which the holding company has not made provision.

In the preparation of the statement adjustments will be necessary to make due allowance for outside shareholders' interests, which are referred to later, and also to provide for all unrealised inter-company profits.

In practice it may be found more convenient to prepare an amalgamated balance sheet and earnings statement of the holding company and its subsidiary undertakings. Whether the amalgamated balance sheet and earnings statement are intended to be published or not, their preparation is a valuable aid to the directors and the auditors in obtaining a view of the business as a whole and in deciding what adjustments in the accounts are necessary or qualifications desirable before the holding company's balance sheet is completed.

This is particularly useful where the number of constituent undertakings is large and the inter-company transactions numerous. There are many cases now where the number of such undertakings in the group exceeds a hundred, and complications

frequently arise owing to the subsidiary companies being themselves also holding companies, and also owing to minority shareholdings, outside preference shareholding interests, etc. The difficulty of obtaining a reasonably accurate view of the combine as a whole in such a case without the aid of consolidated statements can well be appreciated.

Inter-Company Profits and Balances

Viewing the companies as separate entities, no exception could be taken to the execution of capital works by one company for another of the same group or to the transfer of stock in trade, etc., by one company to another at a profit. From the standpoint of the holding company, viewing the subsidiary undertakings as branches, however, it would not be justifiable to take credit for any such profit on capital works or on transfers of goods not disposed of to outside customers. Similar remarks apply to such items as sales at a profit by one subsidiary company of goods obtained from another or interest taken up as revenue by one company on a loan to another company in the group where the concern supplying the goods or charged with the interest is making losses for which provision has not been made by the holding company. In all such cases the fact that such transactions between the companies may have been completed by actual payment does not affect the principle involved or alter the fact that appropriate adjustments should be made to reserve where necessary for any profits which, however properly they may be included in the revenue of the individual companies, are, in effect, unearned from the standpoint of the combined undertaking.

All inter-company balances should be agreed in detail before the consolidated statements are completed. If there are items in transit which have not been taken up, whether by the subsidiary companies or by the holding company, the relative records must be examined so as to ensure that any transactions between the companies directly affecting the profit and loss

accounts are properly dealt with and that profits made by one company at the expense of another are reserved for unless the loss of the other company is taken up in the same period.

If the subsidiary undertakings do not close their accounts and prepare their balance sheets on the same date as the parent company or as near thereto as to make no practical difference, the agreement of inter-company balances and the examination of outstanding items are obviously important. The possible existence of irregularities into which it is not the purpose of this book to enter should be particularly borne in mind in such cases.

Goodwill, etc., in Cost of Shareholdings

The amalgamated statement or balance sheet having been prepared it will rarely be found that the cost to the holding company of its interest in any subsidiary is exactly represented by the surplus tangible assets of that concern whether those tangible assets are taken on the basis on which they were revalued for purposes of the purchase or at their book values.

The differences which arise represent the result of adding together any goodwill or accumulated losses which may have been shown in the balance sheet of the subsidiary company as at the purchase date, any premium paid by the holding company in excess of the par value of the shares, and any reductions made in the book values of the tangible assets in fixing the purchase price, and deducting from this total any capital reserves or undistributed surpluses included in the balance sheet of the subsidiary at the purchase date, any discount obtained by the holding company on the purchase of the shares and also any additions made to the book values of the tangible assets in fixing the purchase consideration.

If the amounts to be added as above exceed those to be deducted the difference represents the amount paid by the holding company for goodwill; if on the other hand the amounts to be deducted are larger, the difference represents a discount

(or capital reserve) from the standpoint of the holding company.

Is it necessary to deal in the balance sheet of the holding company with this item of goodwill? It must be admitted that reference thereto is seldom found in published accounts, but it is suggested that it might give a clearer view of the state of the affairs if a note appeared in the holding company's balance sheet against the shares in subsidiary companies to the effect that the figure included goodwill to an amount specified, or alternatively that the net tangible assets of the subsidiaries on the basis of their latest balance sheets or on some other specified basis amounted in the aggregate to so much. It would be a still greater improvement if a division of the net tangible assets as between fixed and current items were given in the note.

If the assets and liabilities of the subsidiary undertakings are amalgamated with those of the holding company, the item goodwill would necessarily appear in the amalgamated balance sheet as such. It seems unfortunate that no indication of its existence or amount should appear in the published accounts merely because these are presented in the legal form showing the interests in subsidiaries as investments. The insertion of a note of the character just suggested would be of assistance in many cases in remedying this defect in the legal balance sheets of holding companies.

An auditor would, however, hardly be justified in qualifying his report if the directors objected to the balance sheet containing the note suggested.

CHAPTER IX

METHOD (I)—THE LEGAL BALANCE SHEET (cont.)

Statement to be Published in regard to Results of Subsidiary Companies (Section 126)

As has already been mentioned the directors of a holding company are required to annex to the legal balance sheet a statement in regard to the manner in which the results of the subsidiary companies have been dealt with in the accounts of the holding company.

The section of the Act (Section 126) dealing with the contents of this statement is printed in full in Chapter I.

The statement must be signed by the persons who sign the balance sheet and must show :—

(*a*) How the aggregate *profits* made by subsidiary companies have, so far as they concern the holding company, been dealt with for the purpose of the holding company's accounts. No actual amounts of profits made or dealt with need be mentioned in the statement.

(*b*) How the aggregate *losses* incurred by subsidiary companies have, so far as they concern the holding company, been dealt with for the purpose of the holding company's accounts. No actual amounts of losses incurred or dealt with need be mentioned in the statement, but the statement must show how and to what extent the losses have been dealt with :—

(i) In the accounts of the holding company, and

(ii) In the accounts of the unsuccessful subsidiary concern(s), or

(iii) In the accounts of both the holding company and the unsuccessful subsidiary concern(s).

Profits and losses are defined (Section 126 (3)) as those shown in any accounts of a subsidiary made up to a date within the period to which those of the holding company relate (or the latest accounts of the subsidiary which became available within that period). Counsel have expressed the opinion (see footnote to Chapter I) that the word "accounts" for this purpose means profit and loss accounts *year by year* and that the profits or losses, the treatment of which has to be described in the statement regarding subsidiary companies, are the results of the subsidiary companies for *the particular year* or period of their accounts ended within the year covered by the holding company's accounts or, failing such, the results shown by the last accounts which became available within the holding company's financial year or other period.

Limitations of Utility of Statement regarding Subsidiary Companies

It is important to note that this opinion implies that it would not be obligatory for the statement regarding subsidiary companies to refer to any accumulations of profits or losses of prior years shown by the balance sheets of the subsidiary companies. Thus, even if the accumulated losses incurred by the subsidiaries (but not taken up in the accounts of the parent company) had the effect of leaving the combine as a whole with an accumulated adverse balance (though a surplus might perhaps be shown by the legal balance sheet of the holding company) there would be no specific legal obligation on the directors of the holding company to disclose the position in the statement regarding subsidiary companies, however desirable such a course might be. If this is so it is obviously a serious limitation of the utility of the statement.

The limitation of the utility of the statement is accentuated by the statutory provision that *amounts* of profits and losses need not be mentioned therein. Thus the trading losses attributable to the holding company's investments in subsidiaries may exceed

the profits for the actual year under review without it being obligatory for any reference to be made to the fact in the statement regarding subsidiary companies. The directors of the holding company may make the bare statement that a subsidiary company incurred a loss during the year which loss has been carried forward in the accounts of the subsidiary and has not been dealt with in the accounts of the holding company. This loss may have brought the business to the verge of liquidation, but apparently the statement as prescribed by the Act need give no indication of this condition of affairs.

In fact the provision that *amounts* of current profits and losses need not be specified in the statement regarding subsidiary companies taken in conjunction with the possible absence of any reference to the accumulations of profits and losses attributable to the combine as a whole (although the losses may exceed the profits) has preserved to a considerable extent the opportunities of avoiding a clear presentation of the true position which existed before the Companies Act, 1929, came into operation. This is not to say that the best practice would necessarily approve such a course, but merely to indicate a direction in which the legal requirements in connection with the accounts of a holding company fall short of what is desirable.

It is interesting to note that in referring to the accounts of holding companies which present their accounts in the legal as distinct from the consolidated form, the Canadian Companies Act of 1934 calls for a statement by the auditors of the holding company (not the directors as in Great Britain) regarding results of subsidiary companies, and in that connection uses language almost identical with that employed in Section 126 of the British Act; it also contains supplementary provisions designed to avoid to some extent the limitations of the British Act, to which reference has just been made. The Canadian Act provides that if in the opinion of the auditors full provision has not been made in the profit and loss account of the holding company for the aggregate losses less profits of the subsidiaries,

they shall pay what additional provision they consider necessary for that purpose. They must also state the amount of the excess, if any, of the sums treated as income of the holding company from subsidiaries over and above the combined aggregate of profits less losses of the subsidiaries.

It will be seen that the Canadian legislature did not think it necessary to compel disclosure of the aggregate results of the companies in the group for the year but took steps to ensure that any overstatement of the profits of the group in the accounts of the parent company for the year should be disclosed. In this respect the requirements of the Dominion Parliament are distinctly in advance of those obtaining in Great Britain. Like the British Act the Canadian regulations contain no reference to accumulations of profits and losses in subsidiary companies not dealt with by the holding company at the date of its balance sheet.

It is true that the best British practice calls for a standard of disclosure higher than that required by the Canadian Act, and where such a standard has not been reached by directors in their statement under Section 126 of the British Act, auditors have from time to time deemed it necessary to make the disclosure in their own report upon the holding company's balance sheet. Nevertheless it would appear desirable that in any amendment to British company legislation opportunity should be taken to remedy the weaknesses of Section 126 of the Companies Act, 1929, to which reference has been made, and in regard to the trading operations of sub-subsidiaries which are referred to subsequently in this chapter.

It may be added that there is a good deal to be said in favour of disclosure of the aggregate results of the holding company group (not only of unprovided losses but also of undrawn profits) for the financial period covered by the accounts, and of the aggregate accumulated balances on the revenue accounts of subsidiaries at the date of the balance sheet. It is at least curious that whereas a combine of the direct merger type has

to publish accounts showing the operating results for the financial period and the accumulated results to date, a holding company merger may still, without evoking comment from its auditors except possibly in extreme cases, understate its annual profits and give little or no indication of the reserves of profits undrawn from the subsidiary companies. Such, however, is the practice sanctioned by tradition and permitted by law.

Notes on Information to be given in Statement regarding Subsidiary Companies (Section 126)

Dealing now briefly with the information which it is necessary to give in the statement regarding subsidiaries it will be seen that the Act does not prescribe the treatment which is to be accorded to the results of subsidiary companies but aims at obtaining disclosure of those principles which in the exercise of their discretion the directors of the holding company have applied to their company.

It will be noted that Section 126 uses the words " aggregate profits and losses " in setting out the information required in the statement in regard to subsidiary companies. This has been interpreted by some as meaning the excess of aggregate profits over aggregate losses or *vice versa*, but the more general understanding of the section is that the treatment of the aggregate profits of subsidiaries making profits is to be described separately from the treatment accorded to the aggregate losses of the concerns making losses.

Adopting the latter interpretation the directors' statement will deal first with the treatment accorded to the aggregate results of the successful subsidiary companies for the year. Thus the statement will show, for instance, whether the holding company has taken up its full proportion of the profits (declared in dividend or not) attributable to its shares, or whether it has taken credit for only the dividends received or receivable on its holdings. The holding company may have partly followed one procedure and partly another, e.g. it may have taken up the whole of its pro-

portion of the profits of British subsidiaries but only the dividends received or receivable from subsidiaries situated abroad, or in some cases it may not have taken up any of the profits earned by its subsidiaries. Whatever course may have been followed must be described in the statement.

Secondly, the directors will give information regarding the treatment of the results of subsidiary companies which have incurred losses for the year. It will be noted that the statement has to show in every case the extent to which the losses have been taken into account in arriving at the profits or losses disclosed by the holding company's own accounts. According to the opinion of Counsel referred to, it would appear that this means that the statement must show how far the losses have been taken into account in arriving at the results of the holding company *for the year*. Thus, if any of the losses of subsidiary companies have not been taken up by the holding company or have been taken up as a charge against reserves carried in its balance sheet and not against the profit and loss account *of the year*, it will be necessary to indicate this. In the latter case it will, presumably, not be sufficient to say that provision has been made in the accounts of the holding company for the losses of subsidiary companies without indicating the course adopted.

Apart from the general information which must be given in every case as to the treatment of the losses, the statement regarding subsidiary companies has to show what has been done with the losses in the books of the unsuccessful subsidiaries themselves, e.g. whether they have been carried forward wholly or partially, charged against previously earned undistributed profits of those companies, or written off advances from the holding company.

In some cases the losses may have been partially written off profits previously accumulated by the subsidiary companies and partially taken up in the holding company's accounts. Whatever course may have been adopted must be indicated in general terms in the directors' statement.

In practice a large variety of methods of treatment both of profits and losses necessarily arises and a number of examples of statements regarding subsidiary companies published by some well-known companies is printed later in this chapter and others will be found with the published accounts in Appendix II.

Qualifications in Report of Auditors on Balance Sheets of Subsidiary Companies (Section 126 (2))

Should the auditors' report on the balance sheet of any subsidiary not state without qualification that the auditors of that company have obtained all the information and explanations they have required and that the balance sheet is properly drawn up so as to exhibit a true and correct view of the state of the subsidiary company's affairs according to the best of their information and the explanations given to them and as shown by the books of the subsidiary, the statement in regard to subsidiary companies just referred to must contain particulars of the manner in which the report is qualified. (Section 126 (2).)

It is important to note that the Act uses the word " qualification " in this connection. Any statement in the auditors' report which would not in the ordinary course be regarded as a qualification would not necessarily come within the scope of the section and might not require specific reference in the statement regarding subsidiary companies. Where notes appear on the face of the balance sheet of a subsidiary company and are referred to in the report of its auditors it is a matter for consideration whether those notes are merely explanatory, in which case no reference to them need be made in the statement of the parent company's directors under Section 126 (2), or whether they are in effect qualifications of the view of the subsidiary's affairs given by its balance sheet, in which event particulars of the qualification would need to be included in the statement.

The determination as to what is a qualification and what is merely a statement amplifying the auditors' report depends on

the circumstances of the particular case. It is difficult to lay down a hard and fast rule by which to make the distinction. Where, however, there is any doubt in the minds of the directors of the holding company they will probably deem it advisable to quote from the report of the auditors of the subsidiary company the remark which may be in question.

In the case of subsidiary companies incorporated under the British Companies Acts it is, as a rule, a comparatively simple matter for the directors of the holding company to extract particulars of the manner in which the auditors' reports on the balance sheets of subsidiary companies are qualified and to insert the requisite particulars in the statement annexed to the holding company's balance sheet. Examples of such qualifications are as follows :—

"The reports of the auditors on the Balance Sheets of two of the subsidiary companies state that no depreciation has been provided on the properties, plant, &c., of those companies during the past year."

"The auditors' report on the Balance Sheet of one subsidiary company contains a statement that in arriving at the profits shown by the accounts for the year provision has not been made for losses of £...... incurred by a subsidiary of that company."

"The report of the auditors on the Balance Sheet of a subsidiary company contains the remark that they have not been able to obtain satisfactory confirmation of the company's titles to properties included in the balance sheet."

Other examples are printed later in this chapter.

In the case of companies which are not incorporated under the British Companies Acts, and particularly in the case of foreign subsidiary companies, it is sometimes difficult, owing to the form of audit report, which may not be in the British form at all, to determine exactly what the qualifications are to which reference should be made and difficulties in complying with this subsection of the Act may arise in this case.

An example of the way in which foreign companies have been referred to in practice where their auditors' reports have not been in the British form is the following :—

"In the case of certain Foreign Subsidiary Companies the Auditors' Certificates are not in the Form required in the case of a British Company by the Companies Act, 1929, but they are unqualified."

It will frequently be possible in the case of such companies, particularly where they are wholly owned, to arrange that in addition to the certificate which may be given by the auditors in conformity with local practice, they should give an additional certificate prepared on the lines of the auditors' report as required by the British Act. Should an unqualified report of this character be attached to the balance sheet which is transmitted to the holding company, no qualification would need to be made in the statement regarding subsidiary companies.

It would appear that the word "auditor" in Section 126 (2) refers to the auditor officially appointed to audit the annual accounts submitted to the shareholders of the subsidiary company. In the case of foreign subsidiary companies, where an investigation is also made by a separate firm of accountants whose report may perhaps be qualified, although that of the official auditors contains no qualification, the directors of the holding company would not be bound under the Act to make any reference to the qualifications of the investigating accountants in preparing their statement regarding subsidiary companies. They would, however, naturally use their discretion as to whether such a reference might be desirable with the object of making their own accounts more informative and accurate and the auditors of the holding company would also bear the qualifications in mind in drafting their certificate on the accounts of the holding company.

Auditors' Duty in connection with Statements required by Section 126

The British Act prescribes that the persons who sign the balance sheet, i.e. directors of commercial holding companies, shall sign the statement regarding subsidiary companies. It is the opinion of Counsel that the form of the statement is therefore a matter for the directors of the holding company and that the auditors, as such, are not legally concerned with it. Auditors are, however, frequently asked to give directors the

benefit of their advice on the subject and it is of importance that practising accountants should be ready at all times to advise as to the form in which the statement should be made. Further, as the statement has to be annexed to a balance sheet reported on by them, the auditors (whatever their legal position may be) are obviously concerned to see that it is accurate. It is therefore desirable that they should approve the contents of the statement and it may be doubted if there are many cases in practice where this is not done before the auditors' report on the balance sheet is signed.

Examples of Published Statements under Section 126

A number of examples actually used in practice are given below and some others will be found in the published accounts printed in Appendix II.

Example 1.

"The results of the trading of the subsidiary companies have been taken into account in arriving at the profit of the holding company."

Example 2.

"During their last financial years three of the operating subsidiary companies made profits which fell short, to a small extent, of the losses incurred by two other subsidiary companies. The profits and losses remain in the accounts of the respective companies and no provision for the excess of losses over profits has been made in arriving at the results shown in the attached Profit and Loss Account."

Example 3.

"The profits made by one subsidiary company during its last financial year have been brought into this company's accounts to the extent of the dividend receivable from that company. The other subsidiary companies incurred losses during their last financial year, which losses have been carried forward in the accounts of those companies or set against undistributed profits of previous periods. This company's proportion of the nett losses sustained by all the subsidiary companies as above exceeds its share of the undistributed profits earned by approximately £......, which has been provided for out of the profits of the year."

Example 4.

"There have been brought into account the whole of the profits made during the year by subsidiaries whose entire share capital is held by the company and, in the case of subsidiaries whose entire share capital is not so held, the dividends on the company's holdings declared or to be declared in respect of the year 19.... Full provision has been made for any losses incurred."

Example 5.

"The majority of the subsidiary companies have made profits during the year ended 30th September 19.., which are included in the above accounts only to the extent of dividends declared. The remaining profits have been either carried forward in the accounts of the respective companies, or applied in reduction of deficits brought forward from preceding years, for which provision had already been made in the accounts of this company. Four of the subsidiary companies have made losses which have been carried forward in their accounts, and provision has been made therefor in the accounts of this company. The Auditors' Reports on the Balance Sheets of certain of the subsidiary companies, being foreign companies, are not in the form required by the Companies Act, 1929."

Example 6.

"The profits of the company for the year ended 30th September 19.., include the profits of subsidiary companies which have made profits, less the losses of such subsidiary companies as have sustained losses, as shown by the annual (audited) accounts of the subsidiary companies, made up to dates within the year ended 30th September 19.."

Example 7.

"WE CERTIFY :—

(1) ....

(2) In accordance with the requirements of the Companies Act, 1929, that the profits and losses shown in the accounts of the subsidiary companies, made up to the 31st December 19.., have been incorporated in the Holding Company's accounts to the extent of the Profits and Losses made, except in the case of three companies where profits to the extent of the dividends declared only have been included."

Example 8.

"WE CERTIFY THAT :—

....

The Revenue Accounts and Profit and Loss Account include the transactions for the year of the wholly-owned subsidiary companies and the dividends receivable from the partially-owned subsidiary companies. All the subsidiary companies made a profit.

The directors' remuneration amounted to £...... inclusive of fees paid by subsidiary companies."

Example 9.

"The profits of these companies are not included in the accounts of this company, but any dividends distributed by them and received by this company are included, and profits not distributed by them as dividends are retained by them in reserve ; any losses incurred by them are allowed for in fixing the value placed upon their shares in the accounts of this company."

Example 10.

"Profits of subsidiary companies have been included to the extent of the dividends declared and received or receivable by this company ;

the balance of these profits has been carried forward in the accounts of the companies and exceeds the aggregate losses of other subsidiary companies, which have also been carried forward.

As the company has undertaken to provide obsolescence and depreciation on the fixed assets of the majority of its subsidiary companies, these companies have made no such provision in their accounts except in the case of wasting assets and leaseholds. The auditors' certificates have been qualified accordingly."

Example 11.

"The profits of subsidiary companies have been included in the Profit and Loss Account only to the extent of the dividends received during the year, such dividends being mainly paid out of profits of previous years.

The book value of shares in subsidiary companies has been written down in the Balance Sheet to provide for the loss to date of A. Co. Ltd.

No provision has been made in the Profit and Loss Account for the year for losses of subsidiary companies as the undistributed profits of other subsidiary companies exceed such losses, so far as they concern the company."

Example 12.

"Profits of subsidiary companies have been included in the above account to the extent of the dividends which have been declared by them. No losses have been made."

Example 13.

"The profits or losses shown in the accounts of subsidiary companies made up to a date within the year ended 31st December 19. ., have been dealt with in arriving at the above balance of £. . . . . . as follows :—

Profits have been taken credit for to the extent of the dividends declared on the shares held by the company, which dividends, in the aggregate, are substantially less than the profits earned (proportionate to the shareholding of the company) as shown by the accounts of the respective companies.

Losses (proportionate to the shareholding of the company) have been wholly provided for. The provision so made has been written off in arriving at the amount at which the shareholdings and amounts owing by subsidiary companies have been stated in the balance sheet."

Example 14.

"The Profits and Losses of all subsidiary companies have been included in the accounts of this company."

Example 15.

"No value is attributed in the above Balance Sheet to the Company's holding in two subsidiary companies. Neither of such subsidiary companies has made up any accounts nor has either made any profits or incurred any losses."

Example 16.

"The profits of subsidiary companies only to the extent of the dividends receivable therefrom are included in the above account. Such

dividends together with the amount transferred from "reserve for losses of subsidiary companies" and equivalent to the company's proportion of the net profit earned during the year by subsidiaries formerly making losses, do not exceed the aggregate of this company's proportion of the profits less losses of subsidiary companies for the year.

The Balance Sheets of certain Foreign subsidiary companies whilst complying with the requirements of the laws of the respective countries concerned do not bear auditors' reports in the form required by the Companies Act, 1929, of the United Kingdom."

Example 17.

"The profits of the subsidiary company for the year ended 30th June 19.., have been declared in dividends and have been included in the above accounts."

Example 18.

"As regards the profits of subsidiary companies for their financial years ended within the year to 31st August 19.., the aggregate dividends received and receivable by the company from subsidiary companies are slightly in excess of the actual profits earned by those companies and such dividends have been included in the above Profit and Loss Account.

Full provision has been made in the accounts of this company for its proportion of the losses sustained by subsidiary companies. Such losses have been either carried forward in the accounts of those companies or provided for out of their undistributed profits."

Example 19.

" . . . .

The profits or losses shown in the accounts of subsidiary companies made up to a date within the year ended 31st December 19.., or in the last previous accounts which became available within that year have been dealt with as follows :—

Profits are included in this company's revenue accounts to the extent of the dividends received.

Losses of four companies (two of whose accounting periods ended in 19.. and two at 31st December 19..) amounting in the aggregate to £...... and of sub-subsidiary companies whose accounting years ended at 31st December 19.., amounting in the aggregate to £...... have been carried forward in their respective accounts. No specific provision has been made for them in the accounts of this company."

Example 20.

"This company's share of the net aggregate profit earned by subsidiary companies (with one exception referred to below) during the last year in respect of which their accounts are available has been included in this company's Profit and Loss Account.

In the case of the subsidiary company excepted above, whose accounts show a profit for the year 19.., no dividend has yet been declared, but the dividend for the year 19.. is included in this company's Profit and Loss Account."

Example 21.

"In addition to the directors' remuneration shown above, certain directors of this company have received fees from subsidiary companies amounting to £......

Profits of subsidiary companies have been included in the above Profit and Loss Account to the extent of the dividends (in respect of this company's shareholdings) declared by such subsidiary companies. A portion of such dividends relates to profits of a prior period."

Example 22.

"In the above accounts, profits of subsidiary companies have been included only to the extent of the dividends declared and received or receivable; no provision has been made for a loss sustained during the year by a subsidiary company in process of being amalgamated with this company as all losses were taken into account in the purchase consideration payable under the amalgamation agreement."

Example 23.

"The profits of subsidiary companies, as disclosed by the accounts thereof, made up to a date within the period to 28th April 19.., have been included in the profits of this company to the extent of the dividends declared, which dividends are less than the profits earned. No subsidiary company has incurred a loss."

Example 24.

"The policy adopted in previous years of treating subsidiary companies on the footing of branches has been continued; that is to say, in the Balance Sheet now submitted, the company's proportion of their undistributed profits or losses has been credited or reserved for in Profit and Loss Account."

Example 25.

"The dividends received from subsidiary companies have been included in the company's trading account. In the aggregate the profits of the subsidiary companies exceeded the declared dividends. Losses of subsidiary companies so far as they concern this company have been dealt with in this company's accounts."

Example 26.

"The profits of the subsidiary companies shown in their last accounts made up within the year ended 31st January 19.., have not been dealt with in the above accounts, as no profits were available for dividend on this company's holdings in ordinary and deferred shares. In the case of a small buying company a loss was sustained which is provided for in the above accounts."

Example 27.

"Dividends declared by subsidiary companies in respect of the year ended 31st March, 19.., are credited in the Profit and Loss Account of the company for the year. A loss made by a subsidiary company incorporated abroad during the year, has been carried forward in the accounts of that company, but is covered by undistributed profits of the year of other subsidiary companies."

Example 28.

"The profits of subsidiary companies are included in the profits of this company to the extent of (*a*) the dividends declared in respect of the year 19.. and (*b*) an appropriate amount in respect of the profits earned in 19.. by certain subsidiary companies which had previously sustained losses for which this company had made provision in full.

In the case of those subsidiary companies which have sustained losses in 19.. this company's proportion thereof has been provided for out of the profits as above set forth with the exception of certain losses of a capital nature which have been charged against the reserve for contingencies.

In the accounts of the subsidiary companies these losses have been either carried forward or provided for out of undistributed profits of those companies."

Example 29.

"The directors report that all losses made by subsidiary companies have been fully provided for in the company's accounts and profits of subsidiary companies have only been included in so far as dividends have been declared. The balances of profits and losses have been carried forward in the accounts of the respective subsidiary companies."

Example 30.

"Nothing has been included in the above account in respect of the excess of profits over losses of the subsidiary companies for their respective accounting periods ending within the year to 31st March 19...

Profits and losses of the subsidiary companies have been carried forward in their respective Profit and Loss Accounts.

The Balance Sheets of A. Co. Ltd. and B. Co. Ltd., have been certified by the auditors 'subject to adequate provision for depreciation of the assets generally.'"

Example 31.

"Fees to directors of this company charged in the accounts of subsidiary companies amount to £......

In the aggregate the subsidiary companies have made a profit during the financial year and the amounts receivable in dividends are included in the above Profit and Loss Account."

Example 32.

"Provision has been made as above for losses of the subsidiary company A. Co. Ltd., (after deduction of the profit for the year 19..) converted at F.... to the £. Losses for the years 19../.. amounting to £...... at F.... to the £. (being amounts set aside for depreciation) shown in the accounts of a sub-subsidiary of that company have not been provided for."

Example 33.

"The profit of the company for the year ended the 31st December 19.., includes the profits of subsidiary companies, making profits, only to the extent of the dividends declared or about to be declared by such companies on the shares held by the company.

Losses during the year made by subsidiary companies, in so far as they may be attributed to the shareholdings of this company, have been provided for in the accounts of this company."

Example 34.

" Directors' fees from this corporation and its subsidiary companies amount to £......

The profits of subsidiary companies are included in these accounts only to the extent of the dividends declared by such companies, and the undistributed balances of profit have been carried forward. The losses have been carried forward or set off against earlier profits in the accounts of the subsidiary companies concerned.

The accounts of A. Co. Ltd., have not yet been completed. The auditors of that company have expressed the opinion that its shares in and loans to its subsidiary companies and its freehold and leasehold properties appear in its books at amounts which are in excess of their value.

The company has made provision for the losses of its direct subsidiary companies to the extent of writing off the book values of the shares held in such companies."

Losses of Subsidiaries after Close of their Accounts

Cases sometimes arise in practice where although the accounts of subsidiary companies for the periods ended within the accounting period of the holding company show satisfactory profits, the trading between the date of the subsidiary companies' balance sheets and that of the parent company has resulted in losses.

In preparing their statement regarding subsidiary companies to accompany the balance sheet, the directors of the holding company are not legally required to make any reference to these losses and they have full discretion in deciding whether or not provision for such losses should be made in preparing their own company's balance sheet. Should such circumstances arise it would obviously be prudent for the directors of the holding company to refer to such losses in their statement and still more desirable to make provision for the losses in the accounts either by a direct charge against the profits of the holding company or by leaving undrawn profits in the accounts of successful subsidiary companies.

Trading Operations Conducted by Sub-subsidiaries

Important points may arise where the main trading operations of the combine are carried out by sub-subsidiary companies, as the directors are not compelled to give any information as to the trading results of such companies in the statement required by Section 126.

This is an omission of some importance from the Act inasmuch as conditions of this kind obtain in a number of large enterprises. The absence of any legal requirement to indicate the treatment accorded to the results of sub-subsidiary companies may facilitate evasion of disclosure of matters which should be brought to the notice of the members.

The best practice is of course so to draw the accounts of the subsidiary companies which own the shares of the sub-subsidiaries as to provide for any losses of sub-subsidiary companies. Where this is done the statement annexed to the holding company's balance sheet in regard to subsidiary companies will then cover any trading losses incurred by the sub-subsidiary concerns.

If Directors Cannot Obtain Information for Section 126

If for any reason the directors of the holding company are unable to obtain the information necessary for the preparation of their statement regarding subsidiary companies, they must make a report to that effect in writing and this report is to be substituted for the statement to be annexed to the balance sheet (Section 126 (4)).

This clause in the Companies Act is evidently intended to cover exceptional situations, such as certain foreign concerns, and cases such as that of Subsidiary D. in Appendix I. Directors in making such a report would doubtless not content themselves simply with the remark that they were unable to obtain the information requisite for the statement or that it was not available, but would no doubt give some explanation to the members of the special circumstances.

It should perhaps be added that the fact that the directors of a holding company are required to give certain information to the members in their statement regarding subsidiary companies does not in any way relieve the auditors of their duty to satisfy themselves that the balance sheet of the holding company shows a true and correct view of the state of the company's affairs. If they have any reason to think that it does not do so they have a duty to set out their views in their report to the members on the balance sheet of the holding company.

Directors' Remuneration (Section 128)

As has already been mentioned Section 128 of the Companies Act, 1929, requires that a holding company's accounts shall include particulars showing the total amount paid to the directors as remuneration for their services including their remuneration from any subsidiary company.

The practice in regard to the manner in which this information is set out varies somewhat. Some companies prefer to include particulars of the total remuneration of the directors in their statement concerning the accounting treatment of profits and losses of subsidiary companies. Others set out the total charge for remuneration in the profit and loss account of the holding company, showing as a deduction therefrom the amounts borne by subsidiary companies and extending the net charge borne in the accounts of the holding company itself. A further practice is sometimes adopted of showing the information as a separate note on the balance sheet or profit and loss account.

There may be some doubt whether the information required by the Act includes particulars of the remuneration drawn by the directors from sub-subsidiary companies. So far as the writer is aware, although no authoritative ruling has been given on the question, the balance of opinion appears to be in favour of not including such remuneration in the figures disclosed in

the published accounts of holding companies. In practice the amounts stated in the accounts are generally those paid by the holding company itself together with the disbursements of its legal subsidiaries only.

The Act specifically provides that the remuneration of a managing director of the holding company need not be included in the published figures of directors' remuneration. In the case of any other director who holds a salaried office or employment in the company only his directors' fees need be included in the published total.

It will be noted that the provision refers to an office or employment *in the company*. At first sight this might appear to mean that if the working directors of a holding company group hold their managerial appointments in the holding company, then the remuneration for their management services need not be included in the figures of directors' remuneration published in the accounts, but that if their appointments are held in the subsidiary companies (even though they perform the same services) their management remuneration must be included in the published figures of directors' emoluments. So far as the writer is aware, the precise significance of the section in this respect has not yet been interpreted in the Courts, but the usual practice appears to be to treat such managerial remuneration paid by the subsidiary companies as not requiring disclosure. This practice has the support of Counsel's Opinion.

If the directors do not comply with the requirements of the section (Section 128) the auditors of the holding company are required to include in their report on the balance sheet a statement giving the requisite information so far as they are reasonably able to do so.

CHAPTER X

METHOD (I)—THE LEGAL BALANCE SHEET (cont.)

It will be seen from the notes in the previous chapters that Parliament now requires disclosure of information as to the principles which have been adopted by the directors in dealing with the profits and losses of the subsidiary companies but still leaves it to each company to determine what this procedure should be.

It is now proposed to mention some of the circumstances which should be taken into account in considering this question.

Balance Sheets of Subsidiaries show Improved Position

One of the most useful results accruing from the preparation of the amalgamated statement of assets and liabilities of the combine to which reference has already been made, is that it throws into relief the aggregate profits remaining undistributed less the aggregate losses unprovided by the parent concern.

If the surpluses of the subsidiary concerns taking them as a whole have increased since the date of the acquisition of the shares, that is to say there is a profit in their accounts undistributed, then other factors remaining the same, the position has improved and, consequently, no exception would be taken to the investments in the balance sheet remaining " at cost."

It might be that the directors would wish to take up any undistributed profits of subsidiaries as an asset in the holding company's balance sheet and credit the amount to the profit and loss account. If, as is assumed, the undertakings are not merely owned but also effectively controlled, and the amount is properly disclosed on the face of the accounts, then no objection could be raised to this course provided always that reserves for any losses of other subsidiaries are made. Where there is control which, however, is not exercised, it would appear unadvisable that undistributed earnings should be taken up, and

consequently, only dividends actually declared or proposed to be declared should be credited to profit and loss account.

In this country the number of holding companies which take up in their own accounts the undistributed profits of subsidiaries is still comparatively small, but the practice appears to be more common than it was a few years ago. Where such undrawn profits are taken up it is the practice of some holding companies to add the amount taken up to the book value of their shareholdings in subsidiary companies and to describe these in the balance sheet as "at cost plus undistributed profits since acquisition" or in some similar way. A preferable way more usually adopted is not to write up the book value of the shares but to take up the profits in an account shown separately in the balance sheet as "Undistributed Profits of Subsidiaries." As the profits will not be collected unless the subsidiaries pay dividends, they should not be included as current indebtedness under the heading of "Amounts owing by subsidiary companies" without being appropriately distinguished. Dividends declared or proposed to be declared by subsidiaries which will be paid in cash in the ordinary course are in a different category and may reasonably appear under the heading of current indebtedness of subsidiaries or be deducted from amounts owing to them.

It is necessary to mention again here the possibility of abuse by allowing considerable profits to be accumulated year by year in the hands of subsidiary companies (paying only a small dividend or no dividend at all) and without any adequate reference thereto in the holding company's balance sheet or in the statement annexed thereto. This would result in an understatement of the real profits of the business as a whole and unless the accounts of the subsidiaries are published or furnished to the shareholders of the holding company the members might be entirely ignorant of the true results and unable to obtain any indication of the earnings attributable to their shares. From an auditor's point of view all such cases require

special consideration, bearing in mind that the practice indicated if carried to excess may easily result in a point being reached where a holding company's balance sheet no longer shows a true and correct view of the affairs of the undertaking.

Where a holding company acquires a subsidiary concern with a deficiency of assets, which deficiency is made good by profits earned subsequently, the profits would go in the subsidiary company's accounts to the reduction of the deficiency, but the holding company would be justified, if it so desired, in treating these profits as part of the current earnings of the whole business, thereby increasing the book value of the interests in subsidiaries in the holding company's accounts.

Inasmuch as the current profits would go to extinguish the previous losses in the accounts of the subsidiary company, the holding company (even although it controlled the board of directors of the subsidiary) might not be in a position to withdraw the profits in the form of dividends as the current earnings would not become available for distribution until the previous losses were eliminated. In practice, however, it is more than likely that any deficiency at the date of acquisition would be adjusted by a reduction of the subsidiary's capital or some other procedure as a result of which the subsequent earnings would be immediately available for dividend purposes.

Losses incurred before the date of acquisition are as much capital as are profits earned before that date, and an appropriate allowance therefor would probably be made in the purchase price. If these losses are subsequently wiped out, the value of the investment is correspondingly increased. As dividends paid out of surpluses at the date of acquisition are capital, so profits made since are revenue and could be so treated, though it is not suggested that they should always have this treatment.

It is important to bear in mind, however, that undistributed earnings of a subsidiary taken up in the accounts of the holding company should not be declared as dividend by the holding company. In the case of wholly owned subsidiary companies

operating in Great Britain there seem to be good reasons for causing those companies to declare the whole of their profits in dividend and thus to avoid this difficulty. In the case of partly owned and foreign subsidiaries different considerations arise which may in some cases make it undesirable to draw the whole of the profits in dividend or to take up the undistributed profits in the holding company's accounts.

Balance Sheets of Subsidiaries show Losses since Acquisition

It is now necessary to consider the position supposing the subsidiaries taken as a whole have changed for the worse: that is to say, there is a loss (after charging any dividends paid) which has arisen since the businesses were acquired.

Although there is no legal obligation to do so, provision should be made by the holding company in its profit and loss account for this loss. How the provision should be dealt with in the balance sheet is a matter for consideration. Some accountants take the view that the book value of the shares in or indebtedness of subsidiary companies should be written down in the balance sheet on the grounds that a loss has actually been realised, and those who accept this view apply the provision first against the book value of the shares, and secondly against the indebtedness. In some circumstances the practice leads to difficulties, particularly where the policy of taking up the excess of undrawn profits of successful subsidiaries over the losses of unsuccessful subsidiaries is adopted. In such cases the application of the provision to the writing down of the book value of the less successful subsidiaries in the holding company's balance sheet involves in effect the writing up of the shares in or indebtedness of the more successful subsidiaries. It also leads to other difficulties of a semi-legal character should the unprofitable subsidiaries begin at a later date to earn profits which it is desired to take up as revenue in the holding company's accounts.

An alternative practice which has much to commend it has been developed in recent years whereby instead of adjusting the book values of the shares in and indebtedness of subsidiary companies shown in the balance sheet of the holding company, the provision made by the holding company out of its own profit and loss account in respect of the excess of the losses of subsidiary companies over the undrawn profits of other subsidiary companies is carried to a separate account, described by some name such as "Reserve for losses of Subsidiary Companies." This reserve is either carried as a separate item on the liabilities side of the balance sheet or is applied as a deduction from the aggregate of the shares in and indebtedness of subsidiary companies. The latter method has been adopted in preparing the legal accounts of the holding company shown in Appendix I.

If this practice is adopted the shares and indebtedness are shown at cost and the shareholders in the holding company are kept informed as to the extent of the losses which have been sustained on the operations of the subsidiary companies and not provided for by the holding company. If in the future the unsuccessful subsidiaries begin to earn profits, but, owing to their financial position or to their inability to pay dividends whilst their profit and loss accounts are in debit, the holding company may transfer from its reserve for losses of subsidiary companies to its profit and loss account for the year, an amount equivalent to the earnings of those subsidiaries. In this way the holding company's accounts may be made to reflect the earnings of the group for the year.

Whether the practice of carrying the provision made by the holding company to a reserve for the losses of subsidiary companies or the practice of applying the provision in writing down the assets is adopted, it would generally be unnecessary, once the interests in a subsidiary company have been wholly written off or fully reserved against, to make any further provision in the balance sheet unless the holding company is under any

obligation or has any intention of financing additional losses of the subsidiary by further advances at a later date.

If provision were not made for the loss the effect on the balance sheet of the holding company might be important, as credit would have been taken for dividends arising from flourishing subsidiaries, while no provision had been made for losses incurred by others, all of which were for practical purposes branches of the same business.

This provision should be made even if in the accounts of the subsidiaries the losses have been met out of old reserves in existence before the shares were purchased, as these reserves are capital from the standpoint of the holding company and should not be regarded by it as available to meet losses since acquisition. In such circumstances, until the old reserves of subsidiaries are made good, any dividends paid by them out of subsequent profits would be a return of capital to the holding company and, therefore, not available as dividend to its shareholders.

In taking the subsidiaries as a whole and treating them as branches, as suggested, it follows that losses incurred by some will be partly or wholly offset by undistributed profits made by others. Where this occurs it is generally better, at any rate where the profit earning subsidiaries are wholly owned and are operating in this country, that the subsidiaries having the profits should divide them and the holding company should make the necessary provision for the losses of the others. In short, any offsetting should be done through the holding company's accounts, and losses of unsuccessful subsidiaries should preferably not be provided for merely by allowing profits to accumulate with other subsidiaries.

In practice, some holding companies take up in their own accounts all losses made by subsidiary undertakings and not merely the proportion attributable to the number of shares held.

Where this is done, entries are sometimes made in the ac-

counts of those subsidiaries so as to give effect to this procedure. Before deciding to make these entries in the accounts of the subsidiary concerns the directors should examine the procedure closely from a taxation standpoint, as a credit of this character might in some cases be treated for taxation purposes as a business receipt of the subsidiaries without the parent concern being able to obtain any corresponding relief from taxation. This may be particularly important in the case of subsidiary companies operating abroad.

Where the procedure is adopted, inasmuch as the losses have been taken into account in arriving at the profits shown in the holding company's balance sheet and have also been dealt with in the accounts of the subsidiary companies by being written off advances from the parent company, it is necessary for the purpose of the statement regarding subsidiary companies to make a statement as to what has been done in the accounts not only of the parent company but also in those of the subsidiary concerns.

With other companies it is not unusual to find some opposition to provision being made for losses of subsidiary companies. The argument is not infrequently advanced that the losses are really set off by increases in the values of properties and valuations are sometimes produced to substantiate this statement. Increases in value which have occurred since the acquisition of the shares are not, however, as far as the holding company is concerned, an offset to trading losses of subsidiary companies since that date. To the holding company such increases are of a capital nature and have no more relation to the trading operations of the combine than any fluctuation in the value of properties, plant, etc., directly owned by the parent concern.

Example in Appendix

Some of the points referred to are perhaps best illustrated by reference to the example in Appendix I.

In that case the preliminary draft balance sheet of the holding company showed that it had the following interests in subsidiary concerns :—

Shares and Debentures in subsidiary and sub-subsidiary companies (see preliminary draft)		£1,804,500
Deduct : Premiums on own shares issued in exchange for shares of Subsidiary A.		120,000
		£1,684,500
Advances to Subsidiary A. ..	£750,000	
Bills Receivable (do.)	215,000	
		965,000
Subsidiary B.		
Final Dividend	£17,400	
Current Account	2,000	
		19,400
		£2,668,900
Less : Owing to Subsidiary D. ..		10,000
		£2,658,900

The final dividend of Subsidiary B. for the year ended 31st December 1934 (£17,400) is assumed to have been received immediately after the close of the year and is therefore treated as an amount owing to the parent concern at the date of the balance sheet.

A summary of the net assets as shown by the balance sheets of the subsidiary and sub-subsidiary companies has been prepared and is included in Appendix I. This summary shows that after excluding inter-company items and deducting the relative proportions attributable to outside interests, the net tangible assets (i.e. excluding goodwill) representing the Holding Company's interest in the subsidiary undertakings amounted to £1,753,995. The difference between this figure and the

foregoing total of £2,658,900 which was arrived at on the basis of the preliminary draft Balance Sheet is £904,905, made up as shown by the table on page 102

In view of the figures in the table it would clearly be wrong to leave the item " Shares in and amounts owing from subsidiary companies " in the legal balance sheet of the holding company at cost without reducing it in respect of the losses incurred within the group.

Possible Note in Legal Balance Sheet as to what the interests in Subsidiaries represent

There is no legal obligation on the directors of a holding company to disclose how the interests in subsidiary companies are represented by assets and liabilities. In the case of the holding company whose affairs are dealt with in Appendix I., for example, the directors would be under no obligation to give any indication in the legal balance sheet that the company's interests in subsidiary and sub-subsidiary companies include an amount of £404,028, representing goodwill less capital reserves, but a note giving this information in the balance sheet might be of value to shareholders.

It might also be of assistance to the members of a holding company to know how far the financial position of the combined undertakings is satisfactory, and this object might be to some extent achieved by the insertion of an appropriate note in the legal balance sheet of the holding company. A note has been drafted for this purpose so as to meet the circumstances of the Holding Company whose accounts are set out in Appendix I. This note is drawn in explanation of the item of £1,958,023 shown in the amended draft legal balance sheet of the Holding Company in respect of " Shares in and Amounts Owing from Subsidiary Companies." The note is as follows :—

" On the basis of the latest Balance Sheets of the subsidiary undertakings the above interests were represented by net tangible assets in those undertakings of book values as under :—

		£
Land, Buildings, Plant, Machinery, &c.		1,905,000
Shares, Debentures and indebtedness of the Holding Company at par		115,000
Stock in Trade		757,730
Debtors, Bills Receivable and Cash		618,800
		£3,396,530
Less : Debentures, Loans and other Liabilities, Final Dividends, &c.	£ 1,586,500	
Interests of outside Shareholders	256,035	
		1,842,535
Total net assets at book values, exclusive of goodwill ..		£1,553,995 ”

The auditors of a holding company would not, as a rule, be in a position to insist on the insertion of a note of this character.

Provision needed for Trading Losses of Unsuccessful Subsidiary

Then as to the trading since the date of the acquisition of the shares by the holding company : after deducting dividends drawn the net result to the holding company is a deficiency of £500,877. The proper course is to make provision for this loss in the accounts of the holding company by setting it against the surplus on profit and loss account of £479,000 shown in the preliminary draft balance sheet. If provision for the losses of the year is not made the directors will be obliged to disclose the fact in the statement regarding subsidiary companies' results which has to be annexed to the balance sheet.

There are some who may say that where, in cases similar to the example shown in Appendix I, the directors make such a disclosure, it would be sufficient in dealing with trading losses of subsidiary companies if a reference is made on the holding company's balance sheet to the effect that some portion of the advances due from subsidiary companies is bad or doubtful. This is not always enough, and, moreover, it should be borne in mind that if a note of this character is suggested, it pre-supposes

	Company A	Company B (Incorporating C)	Company D	Total
	£	£	£	£
Goodwill—				
In Subsidiary Companies (proportion only)	135,000	48,720		
Excess of Cost over Nominal Value ..		957,000	30,600	
Excess of Nominal Value over Cost ..	*432,500*			
	297,500	1,005,720	30,600	738,820
Capital Reserves being proportion of Surpluses in existence at date of acquisition of Shares, viz.: on Reserves and Profit and Loss A/cs	*90,000*	*158,092*	*86,700*	*334,792*
	387,500	847,628	*56,100*	404,028
Profit & Loss Account—				
Profits :				
Previous periods ..			*10,200*	
This year		*35,307*		
Losses	526,250			
Stock Reserve		40,020		
Reserve Funds : this year		*19,886*		
	526,250	*15,173*	*10,200*	500,877
		TOTAL		£904,905

that the shares are worthless, because the first losses of a subsidiary company will fall upon the shares, and it is only after the capital has been exhausted that the advances which rank as ordinary creditors of the company are affected.

Each case must of course be considered on its merits and although the Companies Act does not require the amount of the losses of subsidiary undertakings to be mentioned by the directors in their statement to be annexed to the balance sheet, they should carefully consider whether in the particular case the balance sheet exhibits a true and correct view of the position without mentioning the amount of unprovided losses.

An examination of the figures of the subsidiary undertakings in the illustrations in Appendix I puts a complexion on the position of the parent concern entirely different from that which is indicated by the preliminary draft balance sheet.

The surplus shown on that balance sheet, as will be seen, arises mainly from the dividends received from the flourishing company, Subsidiary B., amounting to £669,900. The next two items are of considerable importance, being the profit taken to credit in respect of charges to Subsidiary A. for interest on advances amounting to £57,150 and for the profit on sale of goods obtained from A. amounting to £50,000.

It would clearly be undesirable to take credit for either of these unless provision is made for the loss incurred by Subsidiary A. The loss of this company has been increased by the charge for interest on advances and probably also by a loss on the transfer of goods out of which the holding company made a profit. There is a similar item for interest charged against Subsidiary A. in the accounts of B.

Again in the balance sheet of A. there are stocks on hand purchased from B. at a profit to the latter. From the standpoint of the holding company this profit has not yet been earned, and as credit has been taken for the dividends of B., amounting to the greater part of the profits for the period, a

deduction must be made for the holding company's proportion of B.'s profits on these stocks which amounts to £40,020.

The holding company's own operations for the year have resulted in a loss of £280,000, and it is only by means of the dividends received from B. and the charges to A. that so large a surplus is shown.

An amended draft legal balance sheet of the holding company is set out in Appendix I giving effect to the adjustments already indicated, and this balance sheet shows a very different position from that set out in the original draft. It will be observed that the final balance on the profit and loss account agrees with that in the consolidated balance sheet referred to later, and that the item "Shares in and Amounts owing from Subsidiary Companies" (after including Sub-subsidiary Company C. and deducting the amounts owing to Subsidiary D.) is also in agreement with the summary of assets and liabilities of subsidiary undertakings already mentioned.

At the same time it is obvious that this amended balance sheet by itself, legal though it may be, is at its best, a poor instrument wherewith to show the true position of the affairs of the holding company and its subsidiaries, that is to say, of the group as a whole.

Legal Profit and Loss Account of Holding Company

The Companies Act contains no specific provisions as to the form and contents of the profit and loss account which in common with other companies a holding company has to submit to its members. In practice these matters are usually decided by the directors, to whom, as has already been indicated, a wide measure of discretion is generally left as to the policy which they shall adopt in dealing in the holding company's profit and loss account with the results of the subsidiary companies. The Act merely requires (in Section 126) disclosure in general terms of the policy adopted in this matter but gives no guidance as to what that policy should be.

If the accounts are to afford full assistance to the members there is no doubt that they should be so drawn as to disclose with as near an approach to accuracy as possible the results of the operations of the company (whether directly or through subsidiary undertakings) during the period to which the accounts relate.

There would appear to be good reasons in most cases for causing wholly owned British subsidiaries to distribute the whole of their profits in dividend to the holding company and for providing finance for their development either by subscription of additional shares or by advances. In this way, provided that the holding company itself makes provision for any losses incurred by subsidiaries, the whole of the profits (less losses) of the group earned by the wholly owned subsidiary companies would automatically be taken up in the holding company's profit and loss account.

In the case of partly owned and foreign subsidiaries different considerations may apply and it may not always be advisable to distribute the whole of their earnings in dividend. In such cases a note of the amount of the company's proportion of the undistributed profits (less losses) of the subsidiaries for the period might with advantage be inserted in the holding company's profit and loss account.

Should it happen that the holding company's proportion of the losses incurred by one or more subsidiaries exceed its proportion of the undistributed profits of others, proper provision for the excess should be made in its own accounts.

Where the policy is adopted of taking up dividends from subsidiaries and ignoring their undistributed profits, it is desirable that the dividends credited in the holding company's revenue account for the year should not exceed by a material amount its proportion of the profits (less losses) of the subsidiary undertakings for the year, or that adequate disclosure should be made of the inclusion of any such excess income in the revenue of the year.

The directors of the holding company whose accounts are set out in Appendix I have no problem of this character to deal with as they have followed the policy of taking up the losses and their company's proportion of both the distributed and undistributed earnings of the subsidiary undertakings. The draft legal profit and loss account shown in the appendix has been so drawn as to reflect this policy.

Examples of the legal profit and loss accounts submitted by a number of public companies to their shareholders will be found with the balance sheets of those companies in Appendix II.

Auditor's Duty

The duty of the auditor of a holding company is to make his examination and report whether in his opinion the balance sheet represents a true and correct view of the state of the company's affairs. If he is not satisfied that the legal balance sheet as submitted by the directors sets out the true position of the company he has a duty to draw attention to the matter in his report to the members.

If, for example, he is of opinion that owing to losses having been incurred by the subsidiary companies for which the holding company has not made adequate provision, or to some permanent shrinkage in their earning power, it may well be that this is a matter to which his report should refer. In another case he may well think it desirable to report the *amounts* of the losses of subsidiary concerns which have not been disclosed by the directors of the holding company.

An auditor's duty in examining the accounts of a holding company with respect to its interests in subsidiary companies requires to be exercised at least as carefully as when he is dealing with any other item in the balance sheet. He has often to rely upon information, which to say the least is not full, and in all cases has to decide for himself after a careful study of the relevant circumstances how far it may be necessary to

carry his investigations so that he may report whether the balance sheet shows a true and correct view of the state of the holding company's affairs. He is entitled to take a reasonable view of the circumstances of each particular case and no precise rules can be laid down which will apply to all.

He should not be satisfied simply by an inspection of the share certificates of the companies owned. If he does not have an opportunity of examining the balance sheets and accounts of the subsidiaries, or, if having examined them, he is not satisfied that the parent company's balance sheet sets out the position correctly or with the information and explanations he has obtained in connection with them his report ought to state the facts.

CHAPTER XI

METHOD (II)—THE LEGAL BALANCE SHEET TOGETHER WITH BALANCE SHEETS OF SUBSIDIARIES

To publish the legal Balance Sheet and Profit and Loss Account of the Holding Company as in Method (I) and to present simultaneously the separate legal Balance Sheets and Profit and Loss Accounts of all the subsidiaries.

It is not very usual to find the accounts of the subsidiary undertakings published along with the holding company's balance sheet. In some cases publication would be both practicable and helpful, but in others would either be impracticable or would merely add to the difficulties of shareholders and others reading the accounts.

It is largely a question of numbers of subsidiary undertakings. If there are only two or three it may be useful to publish the balance sheets simultaneously if they admit of some comparison.

Perhaps the best illustration of this method of treatment is that of the large British banks and insurance companies, most, if not all, of which have subsidiary or allied undertakings either in this country or abroad carried on as separate companies. In some instances the accounts of the subsidiaries are published along with those of the banks or insurance companies owning them.

There are other companies where a similar procedure is adopted, but they are relatively few in number. Indeed, in the case of the large industrial undertakings where the investments in subsidiaries form a large portion of the total assets and where the number of companies is large, it would be of little use to publish along with the legal accounts of the holding company a large number of separate balance sheets showing the positions of the various subsidiary concerns. These balance sheets might possibly be drawn up on a great variety of bases and as supplementary information might be unintelligible and

even misleading to the holding company's shareholders, to whom they would, in most cases, appear a confused mass of figures.

In large undertakings it is therefore not customary to supplement the accounts of the parent company in this way unless there are special considerations held to justify the practice. An example of this is that of the banks where the simultaneous presentation of the separate accounts of all the constituent undertakings may be of assistance to depositors and others in considering the financial stability of the group.

The separate annual presentation of the accounts of the individual subsidiaries incorporated under British law to general meetings of those companies is of course necessary as in the case of all companies so incorporated. If there are outside debenture holders, or minority shareholders, publication of the accounts to those persons will be necessary, and if any of the subsidiaries is a public company the balance sheet will be filed and open to public inspection at Somerset House in the ordinary way.

Disclosure of Financial Relationship in Balance Sheets

The publication of all the balance sheets at the same time has the advantage of disclosing the financial position of each subsidiary undertaking as a separate legal entity. Unless, however, some essential detail is given showing the financial relationship between the holding company and its several subsidiaries, the simultaneous publication hardly serves its purpose, which is to give information as to the condition of the holding company's interests in its subsidiary undertakings.

For example, it would be necessary for the parent company's balance sheet to show in detail the shares held in each of the undertakings so that it might be seen how much of the total issued capital of each is held. Again, the inter-company balances between the subsidiary companies themselves would require to be set out separately (in addition to the balances

between the holding company and its subsidiaries) if they are sufficiently large to be essential to a correct understanding of the real financial position. This might sometimes be inconvenient or undesirable, especially bearing in mind the possibility of information being given to competitors. It is not likely that the simultaneous publication of the accounts will be adopted in such cases.

On the other hand there are many cases where there are no inter-company balances, or where, being very small, they are comparatively unimportant. Consequently the same objection to the presentation of the accounts simultaneously would not apply.

Where the accounts are so presented, and information is given of numbers of shares held, it is doubtful if the position can be thoroughly understood unless the connecting link between the cost of the shares and the par value is supplied. For example, the cost will include the amount of any premium paid by the holding company for goodwill and for any surplus profits, etc., in existence at the time of acquisition. These surpluses will appear in the accounts of the subsidiary undertakings along with profits made since and will be available for revenue purposes so far as the subsidiaries are concerned. In the hands of the parent company, however, they would go to reduce the cost of the shares as already pointed out: in short, reserves in a subsidiary company should not necessarily be regarded as available for dividend for the shareholders of the parent company. Again, information would also be necessary as to any surplus or deficiency arising on any revaluation of the properties and whether effect had been given thereto in the subsidiary company's accounts, thereby increasing or decreasing the reserves which so far as the holding company is concerned would be of a capital nature.

On the whole the arguments are against the presentation of the accounts in this way in the majority of ordinary commercial concerns organised in holding company groups.

Where this method of presenting the additional information to supplement the legal balance sheet is adopted some special adjustments in the subsidiary companies' balance sheets may be called for.

Adjustments in Subsidiary Companies' Balance Sheets

So long as the constituent undertakings as a whole are making profits and paying dividends and the holding company does not take credit for more than its dividends, no difficulties arise, but the position is different if losses are being made which are provided for by the holding company, or if the balance of any undistributed profits is taken credit for. At first sight an adjustment in the accounts of those concerns making losses or having a balance of undistributed profits might seem to be called for, transferring the loss or the balance of profit to the debit or credit of the holding company. If the holding company owns the whole of the share capital there would perhaps be no objection to this. If, however, the holding company does not own the whole of the shares and therefore does not provide for the whole of the loss or take credit for the whole of the profit, but only for its proportion thereof, then an adjustment of the subsidiary company's accounts on the lines indicated above would not make the position any clearer for the reason that the balance then remaining in the subsidiary company's accounts, while theoretically representing the proportion of the loss or profit, as the case may be, attributable to the minority interests, would, in effect, appear as apportionable to the whole of the capital. Unless, therefore, the whole of any loss made and not merely its due proportion is provided for by the holding company, it would appear unadvisable to adjust the subsidiary company's accounts at all; it would be better to publish them with a note explaining that the holding company has taken care of its proportion of the loss shown.

Adjustments are also necessary in respect of the final dividends proposed to be paid by the subsidiary companies, the

whole or the due proportion of which has been taken credit for by the parent company. In the balance sheets of the subsidiaries the final dividend should be deducted from the balance of profit and loss account, as otherwise profits to the amount of the dividend would appear twice, i.e. both in the accounts of the subsidiary and in those of the holding company.

With many subsidiary concerns no special difficulties present themselves and the accounts can be published in the ordinary way without any adjustments. On the other hand, there are many companies whose accounts require special consideration and separate treatment and in respect of these no general rules can be laid down, but the points referred to here should be borne in mind.

CHAPTER XII

METHOD (III)—THE LEGAL BALANCE SHEET TOGETHER WITH A SUMMARY OF ASSETS AND LIABILITIES OF SUBSIDIARIES

To publish the legal Balance Sheet and Profit and Loss Account of the Holding Company as in Method (I) and to present simultaneously as a separate statement, a summary of the assets and liabilities of all the subsidiary and sub-subsidiary companies taken together.

This method of supplementing the legal balance sheet has certain advantages but is not in use to any great extent. The legal balance sheet shows what amount of money is invested in subsidiary enterprises and, in addition, shareholders are furnished with a separate statement showing the total assets and liabilities, duly classified, of all the subsidiary undertakings taken together and, usually, although it is not necessarily shown separately, the amount of the minority or outside shareholders' interest. On the assumption that the net total of the assets and liabilities is linked up with the figures in the holding company's legal balance sheet it will show the amount of goodwill, if any, in the cost of the shares or any surplus of tangible assets belonging to the holding company and not taken up in its own balance sheet.

It may be said that there is one distinct disadvantage in the aggregation of the assets and liabilities in this way in that it does not show how they are spread over the different concerns, and that while this may not be of importance to a shareholder of the holding company, it may considerably affect a creditor of a subsidiary concern as the aggregated statement gives no indication whatever of the relative position of the individual companies. It should, however, be remembered that the statement is designed to deal with the interests of the parent company in its subsidiaries and is not prepared for the information of creditors of individual subsidiary concerns.

From the point of view of the directors of the holding

company, the aggregation of the assets and liabilities may be an advantage, as the interests of the merger as a whole may be better served by the concentration of the operations in different places and under different control, e.g. production by one company and distribution by another. Comparison of results in such circumstances, or the publication of separate figures, might give an erroneous impression, as from the standpoint of the holding company they may be regarded as one.

Summary of Assets and Liabilities of Subsidiaries

Many of the points which have to be considered in the preparation of this statement also arise in the preparation of the consolidated balance sheet of the whole undertaking which is referred to in the next chapter, and accordingly it is not proposed to go into them in detail here. Among these points are the possibility of subsidiary companies' accounts being prepared at different dates, the absence of any uniform classification of assets and liabilities, the values of assets of different concerns being computed by varying methods, etc.

A mere aggregation of figures from existing balance sheets without taking these factors into consideration would serve no useful purpose and be of no practical value.

Again there is the question as to what holding would be considered sufficient to justify the incorporation of the assets and liabilities in a consolidated statement and the very important points arising on the ascertainment of the minority or outside shareholders' interests.

There are also questions relating to the elimination of inter-company balances and unrealised inter-company profits which have to some extent been dealt with already.

It is as well to prepare the statement in columnar form as set out in the example in Appendix I. With a uniform classification of assets the work is rendered much easier and for simplicity it has been assumed that the assets of the companies dealt with in Appendix I are uniformly classified.

Inter-company balances, including those with the holding company, should be shown under a separate heading and must be eliminated from the final totals of assets and liabilities.

Final dividends of subsidiary companies paid since the date of the balance sheet should be shown amongst the liabilities in so far as they have been received by outside shareholders. Special care should be taken to set off inter-subsidiary company dividends, leaving in the liabilities only an amount representing dividends due to minority shareholders.

It sometimes happens (as in the example in Appendix I) that one of the subsidiaries holds some of the parent company's shares or debenture stock, and in a statement of net assets of subsidiaries alone the shares will necessarily appear as an asset, although in a consolidated balance sheet of the whole undertaking they would be deducted from the issued share or loan capital of the holding company as explained later. If the securities have been acquired at a premium it is advisable, though not always essential, that the premium figure should be treated as goodwill and only the par value shown amongst the assets as has been done in the example.

If the total goodwill of subsidiaries is treated as an asset (as in the consolidated balance sheet) and not merely the proportion attributable to the holding company, then it is not necessary to deduct from the minority shareholders' interest the proportion attributable to them as has been done in the example in the Appendix. The only effect of treating it in this way is to vary the total amount apportionable to the minority interests. It does not affect the final result shown by the amalgamated statement.

Surplus Assets attributable to Holding Company's Shareholding

The balance of the surplus tangible assets represents the proportion thereof pertaining to the shares belonging to the holding company. The difference between this figure and the

cost of the shares is made up first of goodwill and secondly of current revenue balances representing any undivided profits (or losses) made since the date on which the shares were acquired and not yet taken up by the holding company.

If there are undivided profits the parent company might decide to leave them with the subsidiary companies, but if there are losses (as in the example) they should be reserved for by the holding company in its balance sheet.

The figures in the statements will be more easily followed if reference is made to the corresponding figures in the consolidated balance sheet with which they are of course in agreement.

It will also be seen that the amount of the surplus assets including goodwill in the amalgamated statement agrees with the value shown against the items relating to shares in and amounts owing from subsidiary and sub-subsidiary companies in the amended draft legal balance sheet of the holding company, after deducting the indebtedness of the latter to its subsidiary undertakings. The figures shown in the note on the amended draft legal balance sheet of the holding company (see page 101) have also been derived from the amalgamated statement.

The only figures usually published with the holding company's balance sheet are those set out in the last column of the statement.

CHAPTER XIII

METHOD (IV) — THE LEGAL BALANCE SHEET TOGETHER WITH AMALGAMATED OR CONSOLIDATED ACCOUNTS

To publish along with the Holding Company's legal Balance Sheet, as in Method (I), a consolidated Balance Sheet of the whole undertaking, amalgamating the assets and liabilities of the subsidiaries and sub-subsidiaries with those of the Holding Company and a consolidated Profit and Loss Account embracing the profits and losses of all the companies.

American Conditions

In the United States of America, consolidated accounts have for many years been the recognised method of reporting the annual results and financial positions of holding company groups. The practice in that country appears, however, at the present time to be in a state of flux as a result of new legislation and it may well be that some modification may occur.

The adoption of the practice of consolidation in the early years of the present century by the United States Steel Corporation, whose accounts became in a large measure a standard for public corporations, was perhaps the principal cause of its general use.

In the first instance the procedure evoked little support except from accountants, but later most holding companies of importance came to publish their accounts in the consolidated form; in most cases those accounts have been treated as substitutes for and not supplemental to the accounts of the holding companies as separate legal entities.

The principle of consolidation was accepted from 1917 to 1933 as appropriate for the purpose of assessing the Federal Taxes payable on the profits earned by holding company groups, though during a part of that period companies had the option to choose whether their profits should be assessed on the consolidated or separate entity basis.

The principle has also been accepted for many years by the New York Stock Exchange, which, in consultation with the American Institute of Accountants, has been active in endeavouring to secure satisfactory accounts from all companies in whose securities dealings on the exchange occur. With this object in view, the exchange has insisted, *inter alia*, as a condition of permitting dealings, that holding companies shall file consolidated statements with it annually.

This policy has also been adopted by the Securities and Exchange Commission established by the Congress of the United States in 1934 to regulate all stock exchanges in that country. The Commission's rules, which have the force of law, prescribe that as a condition precedent to dealings in the securities of any company on any stock exchange or to dealings in additional securities of any company whose remaining securities are already listed, the company shall file with the commission its own balance sheet as a separate legal entity, together with statements consolidating its accounts with those of its subsidiaries. It is true that the annual submission of accounts to the commission has not yet been called for, but it is interesting to note that consolidated accounts as a supplement to the separate or legal balance sheet are evidently regarded in the United States as essential to an adequate disclosure of the operating results and financial positions of holding companies.

In Canada the presentation of consolidated accounts by large holding company groups is a common practice, and as already mentioned, companies governed by the Dominion Companies Act of 1934 have the option either to present accounts in this form or in the separate or legal form.

Position on the Continent of Europe

Consolidated accounts have also become increasingly common on the continent of Europe in recent years owing to the circumstances in which continental enterprises had recourse to British

and American financial assistance. Such assistance could be given to a large scale business comprised of many companies only if a comprehensive review of the position, resources and earning power of the organisation as a whole could be obtained; and the preparation of consolidated statements was in most cases found to be a *sine qua non* for this purpose. This has had its natural effect on the form in which annual accounts of the European consolidations have been presented to British and American investors and the consolidated balance sheet and earnings statement have come to be well known on the continent in this connection.

So far as the annual accounts presented to shareholders are concerned, however, the consolidated form is little used in European countries. Indeed the position of holding companies in those countries with respect to accounts other than those required for foreign investors under financing agreements, etc. is largely the same as that which obtained in Great Britain prior to the date when the Companies Act, 1929, became operative; so far as the writer has been able to ascertain there are no special legal regulations in force with regard to the form or contents of the balance sheets of holding companies, except that the balance sheets of German companies must show holdings in other companies separately from their other assets. It may fairly be said that, speaking generally, the continental European countries have made little use of consolidated accounts as a method of conveying information to shareholders.

Position in this Country

Since the first edition of this book was published in 1923 considerable progress has been made in Great Britain in the common appreciation of the value of consolidated statements, and the publication of such statements to supplement the legal balance sheet is much more general. How far their real merits are realised outside the ranks of accountants, the financial press and financial houses, it is difficult to say, but the evidence

goes to show that there is a greater demand nowadays for the information which consolidated statements give.

Perhaps the real opposition to any but the most essential changes in the form of the published accounts often comes from boards of directors who are not all imbued with the desire to give their shareholders as much information as possible. In some cases they no doubt have in mind the necessity for avoiding disclosure of information which might conceivably be of use to competitors.

Moreover, in view of the fact that the shares in the industrial concerns of this country are generally very widely distributed among a large number of members, the call for consolidated accounts has never been insistent. Shareholders perhaps can hardly be expected to know what form of accounts would be most suitable, but in recent years there has been a demand for more information concerning the position and results of subsidiary businesses.

It is the duty of accountants to help shareholders in this direction, but accountants cannot do much unaided. In this country it is the directors who prepare the published accounts and are responsible for the information given therein, although it is for the auditors to report whether or not in their opinion the accounts are properly drawn up so as to exhibit a true and correct view of the state of the company's affairs.

It is interesting to note that there was some indirect legal recognition of the consolidated account afforded by the Finance Act, 1915, where, in connection with Excess Profits Duty, it was provided that :—

> "Where any company either in its own name or that of a nominee owns the whole of the ordinary capital of any other company carrying on the same trade or business or so much of that capital as under the general law a single shareholder can legally own the provision . . . . shall apply as if that other company were a *branch* of the first-named company."

No doubt it will be said that this clause was intended to deal more with profits, but the natural corollary to it would be the

consolidated balance sheet as well as the profit and loss account.

In this country, before the passing of the Companies Act, 1929, the consolidated balance sheet was occasionally published as a separate statement but such a statement would not comply with the requirements of that Act (see Counsels' opinion in foot-note to Chapter I). In cases where consolidated statements are published it is important that they should be appropriately described as combined accounts with notes indicating the balance sheets which have been amalgamated.

Some Advantages and Disadvantages

When the consolidated balance sheet is published in order to supplement the legal accounts of the holding company, shareholders can see from the legal balance sheet the financial position of the parent company in its relation to shareholders and creditors and from the consolidated accounts can see the position and earnings of the group as a single organization.

Amalgamated accounts are essential if a shareholder is to be enabled to form an accurate opinion of the financial position of the whole undertaking. The consolidated balance sheet enables him to see the total interest (capital and revenue) accruing to minority or outside shareholders in the subsidiary concerns, and what perhaps is most important of all, the surplus which is available for the shareholders of the parent institution for dividend purposes. It also gives him an indication how his capital has in effect been spread over the different types of assets (including goodwill) owned by the combine or has been lost, and enables him to form some opinion as to the extent of the group's resources.

Without consolidated statements it is extremely difficult to follow the figures from a mere perusal of the separate balance sheets, especially if the position is complicated by one of the subsidiary concerns being also a holding company or by the accounts of the constituent units being drawn up at different

dates. The consolidated accounts are shown after eliminating inter-company indebtedness, share-holdings, purchases, sales and dividends and the figures are shown on a net basis, while all profits and losses are automatically taken up. This considerably reduces the complications referred to.

It is not too much to say that the legal balance sheet, without some additional information such as is given by a consolidated statement, may give only a very partial indication of the position of the shareholders' investment at a particular date.

On the other hand, there is a distinct disadvantage attaching to the consolidated balance sheet as a separate statement in that it includes the interests in constituent companies in the form of assets and liabilities irrespective of the fact that these assets and liabilities are not legally the property or liabilities of the holding company. This may be of particular importance in instances where, as in the case of companies not domiciled in Great Britain, the consolidated accounts are published in substitution for and not merely as supplemental to the accounts of the holding company as a separate legal entity.

Further, it is not possible to tell from consolidated accounts which companies are making profits. This may be important if the greater part of the earnings is made by a small company which has relatively few capital liabilities at a time when losses are being incurred by other constituent units of the consolidation which have large liabilities to debenture holders, etc. In such circumstances only the publication of separate balance sheets would disclose the real position of affairs and it might well be that the presentation of consolidated accounts in these or other circumstances would be misleading. The question whether the issue of consolidated accounts or the inclusion of a particular company's accounts in the consolidation would or would not have a misleading effect, is one which requires consideration in the light of the peculiar circumstances affecting the undertakings whose accounts are being dealt with.

In the absence of special circumstances, however, where the holding company directs the policy and controls the operations of the constituent undertakings, it may be best, on the whole, to disregard the technical legal situation and to view the position from a practical standpoint, i.e. to regard the parent company as owner of the assets and responsible for the liabilities and for the interests of minority shareholders.

Should the group of companies not be run as a whole, certain of the subsidiaries might need special treatment as it would hardly be reasonable to amalgamate the accounts under such conditions.

Preliminary Matters requiring Consideration

Before coming to the consideration of the points arising in the preparation of the balance sheet, there are a few preliminary matters with which it is essential to deal first.

Amalgamated Balance Sheets should be prepared as on a Common Date

The balance sheets which are to be amalgamated should all be prepared at the same date. If some of the subsidiary companies prepare their accounts at different dates or at dates different from that of the parent company's balance sheet it might be inappropriate to amalgamate them, but if no material change in the assets and liabilities had taken place in the interval, then possibly this fact could be ignored, provided it was mentioned on the face of the amalgamated balance sheet. In any event, there would probably be a number of outstanding transactions or items in transit between the various companies which would have to be investigated and properly dealt with in the combined account.

In the case of Subsidiary D. in Appendix I, the directors of the holding company know from statistical returns that the position of the subsidiary has not deteriorated during the year and they therefore feel justified in the circumstances of this case in including its 1933 balance sheet figures in the amalgamated statement.

Uniform Basis of Classification and Valuation needed for satisfactory Amalgamation of Balance Sheets

Another matter relates to the classification of the balance sheet items. Unless the assets and liabilities of all the companies were similarly classified an amalgamated account would hardly be intelligible and its value as a supplementary statement would be reduced accordingly. For instance, some companies might not have their fixed assets split up in their own accounts at all, as at the time they were incorporated they might have taken over some other business at a lump sum, and no attempt to allocate the purchase price between the different assets might have been made except where it was essential for domestic purposes. Obviously, before a really useful consolidated balance sheet could be prepared, the assets of all the companies must be uniformly classified. As already mentioned it has been assumed that the balance sheets in Appendix I represent a uniform classification.

Again, inquiry would have to be made in order to ascertain if the values of the assets (including such items as stock and work in progress) and liabilities are computed on the same basis. With some of the concerns the assets may appear in their balance sheets at cost less depreciation which, however, may not have been provided by all companies at the same rates. With other companies there may have been revaluations at some time and the cost figures may have been adjusted accordingly, or the assets may be included on the basis of estimates by the directors. Stock in trade of one concern may be valued at prime cost, whereas similar goods held by another may be valued at full manufacturing cost including works' overhead charges. One company may provide for the income-tax liability accrued at the date of its balance sheet, whereas another may adopt the more conservative policy of reserving in advance for the tax which will be payable in a subsequent year, the assessment for which will be calculated by reference to the

profits of the year ended on the date of the balance sheet: in fact, very different bases may be adopted throughout the combine.

To add to the difficulties, some or all of these values may be on a footing entirely different from that on which the concerns were taken over by the parent company. When the shares were acquired by the parent company a re-valuation of the properties of some or all of the undertakings may have taken place which gave values different from the figures in the published accounts, and in fixing the purchase price appropriate allowances were no doubt made to take account of the new values.

Should this be so the officials of the holding company, in preparing the amalgamated statement, should take the assets of the subsidiary companies into account at their adjusted values and should endeavour to make adjustments which have the general effect of achieving as nearly as possible a uniform basis of classification and valuation.

In some cases the holding company's interest in a subsidiary concern may have been purchased without separate valuations of the individual assets of the subsidiary being made and the price may have been fixed having regard to the value of the undertaking as a whole. In such a case there is some cogency in the argument that any discount at which the shares are purchased should be regarded as a reduction, first, of any item of goodwill in the accounts of the subsidiary company and, secondly, of the book value of the fixed assets of that company.

An example of this might arise in a subsidiary company whose earning power in relation to the book values of its fixed assets has been inadequate, perhaps as a result of those assets having been acquired at uneconomic price levels. In preparing a consolidated balance sheet it would be necessary to adjust the book values of the fixed assets of such a subsidiary company when amalgamating them with those of the other concerns.

On the other hand, if the purchase price paid by the holding company for the shares in a subsidiary company has constituted a premium in a case where the price has been based on a valuation of the assets of the subsidiary company, which valuation has shown the fixed assets at amounts greater than those at which they have been carried in the books of the subsidiary company, the premium paid for the shares could, to the extent of the increase in valuation, be regarded as an accretion to the fixed asset values in preparing a consolidated balance sheet rather than as an addition to goodwill.

A careful study of the problem of uniform classification and valuation of assets and liabilities is of considerable importance if the consolidated balance sheet is to show a fair view of the position of the consolidation. Each company has its own peculiar difficulties and it is not possible to do more than indicate some of the considerations, as has been done above.

Extent to which Amalgamation of Balance Sheets is justified by Shareholdings, etc.

Another important point is the amount of the ordinary capital in a subsidiary company which a holding company should possess to warrant consolidation on the assumption that the ordinary shares carry control. It is impossible to give a general ruling upon this, as it must obviously depend entirely upon the circumstances, but effective control and direction of the policy of a subsidiary undertaking are important factors to bear in mind. As a rule the assets and liabilities are not, in fact, amalgamated unless the parent company owns or controls shares carrying 75 per cent. or more of the voting power capable of being exercised at a general meeting of the subsidiary, but cases can be cited where a smaller holding warrants amalgamation. In the illustration in Appendix I, the holding company purchased a bare controlling interest in Subsidiary D. amounting to 51 per cent. of the shares, but the directors consider that certain special circumstances within their know-

ledge warrant the inclusion of the assets and liabilities with those of the holding company. Each case is, of course, a matter for individual judgment and requires careful consideration.

When it is decided not to amalgamate the assets and liabilities, then the shareholdings will appear as investments under a suitable heading in the consolidated balance sheet and care should be taken to see that provision is made for any losses.

Effect of Amalgamation on Holding Company's Balance Sheet

When these matters have been disposed of the work of amalgamation can be proceeded with, the effect of the amalgamation being to eliminate from the parent company's balance sheet the item of investments in subsidiary undertakings and to show instead the actual assets and liabilities of the subsidiaries and sub-subsidiaries. The result is to treat these companies in the same way as if they were branches of the parent company, with this difference, that in dealing with subsidiary and sub-subsidiary companies a number of items emerge which have to be treated specially. This would probably not arise as between the head office and a branch of the same company. Some of the items will now be considered.

Goodwill and Capital Reserves

The first and one of the most important is goodwill. In the consolidated balance sheet this will take into account the goodwill, if any, of the holding company, together with any goodwill appearing in the balance sheets of the subsidiaries; also the premium paid or discount received by the holding company on the shares purchased so far as applicable to goodwill and capital reserves respectively after deducting the amount of any surpluses of subsidiary undertakings in existence at the date of purchase. Where shares are acquired at different dates the apportionment of the surplus at the date of acquisition should be made separately on each purchase.

If the amount paid for the shares is greater than the nominal value the excess is a premium ; if it is less the difference is a discount. The premium, therefore, is the price paid for such proportion of the surplus of assets (whether shown on the balance sheet or not) over the capital and liabilities of a subsidiary as accrues to the shares acquired, while the discount represents the proportion of the excess of the capital and liabilities over the assets.

If the cost of the shares exceeds the nominal value (as with Subsidiaries B., C. and D.) it indicates that there are surpluses in the subsidiary companies' accounts which will require to be deducted from the premium as they were included in the price paid. If, however, there are no surpluses, or if there is a deficiency, then the assets or goodwill or both were considered at the time to be worth more than their book values, or perhaps one worth more and the other less, in any case sufficient to show a surplus. But assuming the assets and goodwill were worth their book values only, it means that the holding company either made an unfortunate purchase or was prepared to pay a higher price to get control.

On the other hand, if the nominal value exceeds the cost (as with Subsidiary A.) it indicates that there is a deficiency in the balance sheet of the subsidiary which will, in amalgamating the figures, be deducted from the discount, as allowance will have been made for this in fixing the price of the shares. If no deficiency appears or there is a surplus it means that the assets or goodwill were considered to be worth less than their book values, or perhaps one worth less and the other more, in any case sufficient to show a deficiency on the accounts. Assuming the assets and goodwill were worth their book values, it follows that the holding company has made a fortunate purchase, acquiring the right to more assets than it parted with.

By adjusting any increase or decrease in the value of the assets against the premium or discount (except in cases where the adjustment can be more appropriately applied to individual

assets other than goodwill), the adjustment represents an increase or decrease in goodwill.

In practice all surpluses or deficiencies of subsidiary companies in existence at the date of purchase of the shares, whether on reserve fund, profit and loss or other account, or in respect of differences arising on the re-valuation of properties which it is decided to introduce into the balance sheet, are carried to a capital reserve account. From the total is deducted any dividend which may have been paid thereout and treated as a reduction of the cost of the shares by the holding company, as well as the proportion of the balance applicable to the minority shares.

Similarly the premiums paid for the shares and any discounts received are brought together as far as is appropriate under the general heading of goodwill and in the final balance sheet the capital reserve is deducted therefrom, thus leaving a net figure for goodwill.

If the capital reserve should be the greater it would appear in the consolidated balance sheet as a surplus not available for dividend purposes and is sometimes referred to as "negative goodwill."

Some concerns do not set off "negative goodwill" arising on the purchase of one undertaking either against goodwill appearing in the accounts of the holding company itself or in the accounts of another undertaking in the same group or against goodwill arising from the purchase of the shares of another subsidiary. It is, however, more in accordance with the usual practice to set the one off against the other.

Minority or Outside Interests

The next important matter relates to the ascertainment of the interest of the minority or outside shareholders, which has to some extent been touched upon already.

The minority shareholder is usually the ordinary shareholder whose shares have not been acquired by the holding company.

In addition to his rights to the nominal value of his shares he is entitled to participate in all undivided profits shown at any balance sheet date in whatever period accumulated and credit must be given accordingly.

Care is necessary in the actual calculations where one of the companies is a sub-subsidiary company, the shares of which are held by one of the subsidiary companies acting as a Minor Holding Company. This is illustrated in Appendix I, where Subsidiary B. holds the shares of Sub-subsidiary C., and where the outside interest must be calculated in two stages.

If a subsidiary concern issues new shares to the holding company, whether at a premium or not, a re-adjustment of the minority interest is necessary unless the minority shareholders take their appropriate share of the new issue.

With regard to the preference shares the regulations of a company may make it necessary for the holding company to acquire at least a majority of these shares in order to obtain control of the subsidiary company.

The enactment of the Finance Act, 1927, relating to exemption from Stamp Duties on share capital and transfers where 90 per cent. of the total issued share capital (i.e. preference as well as ordinary) is acquired in a subsidiary company, may also render desirable the acquisition by the holding company of preference shares in a subsidiary. It is, however, frequently found that the holding company either does not own any preference shares or owns only a small proportion.

Consequently the nominal value of any preference shares not owned by the holding company must appear as an outside interest, and it is a matter for consideration in each case whether any unpaid cumulative preference dividend (due to the fact that losses are being made by the subsidiary, as in the case of Subsidiary A. in Appendix I) should be added.

Occasionally preference shareholders are entitled to participate in the surplus of assets on a liquidation as in the case of Sub-subsidiary C. in Appendix I, where the preference shareholders

are credited with their proportion of the surpluses shown after the payment of the amounts of the preference and ordinary capital.

As opposed to this it might fairly be argued that it is not necessary in a consolidated balance sheet which represents the state of affairs of an organisation as a going concern at a certain date to reflect what might happen to a surplus in the case of the liquidation of a subsidiary. It is hardly likely that a subsidiary would be liquidated as long as there was any surplus in which the preference shareholders had a right to share unless perhaps for the purpose of simplifying the internal organisation of the consolidation. A note on the consolidated balance sheet of the contingent liability to preference shareholders would then meet the case. The same remark might apply to arrears of cumulative preference dividends.

Any outstanding debentures not owned by the parent company must appear as liabilities with a reference to the fact that they are charged on the assets of certain of the subsidiary undertakings.

Outside Interests in Subsidiary making Losses—Proportion of Losses Chargeable to Outside Shareholders limited to Nominal Value of their Shares

A peculiar point sometimes arises where a subsidiary company is making losses and where, in consequence, the minority shareholders appear to be chargeable with a proportionate part of a loss in excess of the nominal value of the shares held by them as in the case of Subsidiary A. It might be argued that it is impossible for the minority shareholders to lose more than the nominal value of the shares owned by them.

This is certainly so, and in preparing a consolidated balance sheet it is desirable that the fact should be faced. If, as in the case of Subsidiary A. in Appendix I, the holding company, in addition to its investments in the shape of shares, has provided further capital by way of advances, the prudent course

would generally be to treat losses in excess of the share capital as applicable to these advances. This is especially the case if it is intended for the general purpose of the organisation to keep the unsuccessful subsidiary alive, and therefore, to continue to finance it.

In such cases it is not infrequently found that the directors of the holding company decide to make provision in their accounts for the whole of the losses of the subsidiary company and to ignore the legal technicality that a proportion of the losses could be regarded as attributable to the outside shareholdings. This is the view which the directors have taken in the example shown in Appendix I, in which case it will be seen that not only have they made full provision in the holding company's accounts for the whole of the loss incurred by Subsidiary A. during the year, but they have also made a reserve for the amount of the preference dividend which would be payable by Subsidiary A. to the outside preference shareholders, before the ordinary shareholders in that company would again become entitled to participate in the profits should any be earned in future.

A point to be borne in mind in a case of this character is that should the subsidiary subsequently earn profits the outside shareholders would not be entitled to receive dividends until the appropriate amount of loss previously taken up by the holding company had been made good.

Should it be intended to wind up the subsidiary, it would be sufficient to write off from the advances only the proportion of losses attributable thereto. This, however, would turn on the policy of the holding company in regard to the protection of outside creditors of its subsidiaries : it is sometimes considered to be in the general interests of the whole consolidation not to allow creditors of any constituent to suffer through its losses as the credit of the whole combine might suffer if any subsidiary defaulted in its obligations to outside creditors.

Naturally if there is an uncalled liability on the shares of the unsuccessful subsidiary, calls would be made on the minority shareholder in a liquidation to make good his share of any deficiency of assets, so that in such a case, and to this extent, the proportionate part of the loss on trading would eventually be recoverable.

Disadvantages of Earmarking Proportion of each Asset and Liability as Attributable to Outside Interests

Some concerns instead of showing the minority interests as a liability in the consolidated balance sheet only bring in the proportion of the assets and liabilities attributable to the capital held by the parent company. This procedure is not recommended and, moreover, is likely to lead to difficulties. In the elimination of inter-company balances, for example, where a parent company has an amount owing to it by a subsidiary and only a percentage of the assets and liabilities of the subsidiary is taken up in the consolidated account, the procedure would result in a difference in the inter-company balances which would have to be treated in the consolidated balance sheet as an amount due from outside debtors. Such a course would obviously be wrong.

Subsidiary owning Shares of Parent Company

A subsidiary undertaking (as in the case of Subsidiary B. in the Appendix) may own some of the shares of the holding company which it acquired before the holding company became interested in the capital of the subsidiary. Just as it is generally recognised in Great Britain, and, in fact, a legal obligation, that a company should not apply any of its funds in acquiring its own shares, so also it would generally be considered in this country that once a company has become a part of a holding company group through the parent company's acquisition of a controlling interest in its shares, it is undesirable that the sub-

sidiary should apply its funds (an equitable interest in which now belongs to the parent company) in the purchase of shares in the holding company. The existence of holdings of a parent company's shares by a subsidiary leads, if material in size, to complications in the presentation of the legal accounts of both companies, but this is so unusual as not to necessitate detailed exposition here.

In preparing a consolidated balance sheet holdings of this character should be treated as a deduction from the issued capital of the parent company and any premium which may have been paid for the shares should be added to the goodwill. If the shares were acquired from the parent company itself the premium would, of course, be set off on consolidation against the corresponding reserve appearing in the parent company's books.

If the subsidiary owning the shares had any outside shareholders their proportion of the book value of the surplus assets of the subsidiary (i.e. including the book value of the shares in the holding company) would be included in the consolidated balance sheet under the heading of interests of outside shareholders in subsidiary undertakings. A further reserve might also be necessary in respect of their interest in any excess of the subsidiary's proportion of the holding company's surplus assets over the book value at which the parent concern's shares are carried in the subsidiary company's balance sheet. In practice, however, this additional reserve would not usually be made unless the circumstances of the case were such as to make the provision material.

Inter-Company Transactions, etc.

In consolidating the accounts all inter-company indebtedness must be set off and not included in the assets or liabilities in the consolidated balance sheet, as it is the purpose of the latter to show the financial position of the affiliated group of companies to the public or outside world and not to each other. Refer-

ence has already been made to the importance of tracing any differences arising on inter-company balances and of ascertaining that they are properly dealt with in the balance sheet, e.g. goods shipped by one company and not received by another will have to be treated as stock in transit, and so on.

Final dividends payable by subsidiary companies will have been shown under "Amounts owing from Subsidiary Companies" in the holding company's own legal balance sheet. In the consolidated account the full dividend payable by the subsidiary must be deducted from that company's balance on profit and loss account and set off against the amount shown by the parent company's legal balance sheet as owing from the subsidiary for dividends, the balance being the dividend due to outside shareholders which will be shown as a liability to them.

It is sometimes found more convenient to leave the preparation of the consolidated balance sheet until all inter-company transactions have been completed, items in transit taken up and the dividends paid so that the outstanding matters can be viewed in their proper perspective.

With regard to transactions in bills between the different companies, the parent company may have drawn bills on a subsidiary and in the latter's accounts they will appear as bills payable while in the holding company's own accounts they appear as bills receivable. In the consolidated balance sheet they must be eliminated altogether as inter-company balances unless the parent company has discounted any of the bills, in which event the total discounted will appear amongst the liabilities. In these circumstances, as in Appendix I, the note as to contingent liabilities for bills discounted would disappear in the consolidated balance sheet since the actual liability is included instead.

Inter-Company Profits

As has already been stated inter-company profits on stocks, capital expenditure, etc., which at the date of the balance sheet

were not realised, should be eliminated from the profit and loss account and the assets reduced accordingly. It should, however, be mentioned that the minority shareholder has the right to consider that the profit has been realised, since the transactions have taken place with companies in which he has no interest. A reserve need therefore only be made for the parent company's proportion of the profit.

If any of the profit were taken by the holding company before the shares were acquired, no reserve out of earnings would be necessary, but in consolidating the balance sheets the stocks carried by the subsidiary should be adjusted to the valuation level adopted in valuing similar stocks carried by the parent company. This adjustment is necessary in order to state the combined stocks in the consolidated balance sheet on a common footing : the adjustment could properly be regarded as an adjustment of the cost of acquiring the shares in the subsidiary and would be treated in the same way as a premium or discount on the acquisition of the shares, i.e., could properly be added to or deducted from the goodwill item after taking pre-acquisition profits into account.

Where accounts are being consolidated for the first time care must be taken that not only is the balance sheet properly prepared by the creation of an appropriate stock reserve designed to eliminate inter-company profits on stocks still on hand in a constituent company at the balance sheet date, but also that the consolidated profit and loss account is adjusted so as to eliminate inter-company profits on stocks similarly on hand at the commencement of the period.

This means that the surplus on profit and loss account at the commencement of the period must be reduced by the amount of any profit included in the stocks at that date and the profit for the period under review increased or decreased according to whether the amount of the profit in the stocks at the end of the period was less or greater than that at the commencement.

The stocks in the balance sheet at the end of the period would be reduced by the reserve then required.

Fixed Assets

In setting out the fixed assets of the consolidation it is of special importance, as has already been mentioned in this chapter, to consider the problem of uniform classification and to deal properly with any surplus or deficiency of book values from the standpoint of the holding company. Any such surplus or deficiency which may have arisen on revaluation of the assets as at the date on which the shares were purchased is of a capital nature and care must be taken to see that it is so treated in preparing the consolidated balance sheet.

In preparing this balance sheet there should also be deducted any reserve for additional depreciation of fixed assets of subsidiaries which the holding company may have provided in its own accounts (see "Examination of balance sheets of subsidiaries" in Chapter VIII) with the object of making the total charge for depreciation against the profits of the combine a fair one having regard to the revaluations referred to. This may be of special importance in the case of international holding company groups, the foreign constituents of which are in countries with currencies which have fluctuated materially in exchange value as compared with the currency in which the parent company's capital was subscribed.

Contingent Liabilities

Contingent liabilities of the holding company in respect of subsidiary undertakings would not be shown on the consolidated balance sheet for the reason that the full liabilities appear instead. On the other hand, any contingent liabilities of the parent company or of the subsidiary undertakings to outside creditors would require to be set out in the usual way.

Foreign Subsidiaries

In preparing the accounts of foreign subsidiaries for consolidation with those of the parent enterprise special difficulties

are often found. The necessity for examining carefully the depreciation charges made in arriving at the profits of such subsidiaries has already been mentioned, but there are other important matters which call for consideration.

It is not proposed to enter into a detailed discussion of these matters in this book, but it will, for example, be apparent that the problem of uniform classification of assets is rendered more difficult of solution where fixed assets have been acquired by a subsidiary company during a period in which the local currency has fluctuated considerably in terms of sterling.

In such cases, especially where subsequent depreciation has been calculated upon the currency values at which the fixed assets have been taken into the books of the subsidiary company, the subsequent reconversion of the book values of those assets into sterling for the purpose of consolidation presents difficulties. Difficulties are also met where exchange restrictions are in force in countries where one or more of the subsidiaries is domiciled. It may be necessary to consider carefully the desirability of including the assets and liabilities of such subsidiaries in the amalgamated statement.

The taking up of undistributed profits and losses of foreign subsidiaries, the accounts of which are kept in non-stabilised currencies or which are situated in countries subject to exchange restrictions, is also a matter which demands careful consideration.

It is impossible to lay down a hard and fast rule and each case must be looked at in the light of its own peculiar circumstances.

Consolidated Profit and Loss Account

The methods adopted by holding companies which publish consolidated profit and loss accounts differ considerably as to the detailed practices followed in their compilation. Some companies maintain elaborate records in special sets of books kept for the purpose, with the object of showing the aggregate sales and working and administrative expenses of the group as

if it were a single economic unit. In such cases the consolidated profit and loss account merely represents a summary of the revenue balances taken out of this separate set of books, all the preliminary work designed to eliminate inter-company sales, purchases and other similar transactions and their results having been done in the ordinary course of keeping the books.

In many other cases, however, the consolidated profit and loss account is only required for the purpose of showing the aggregate operating results of the group and it is not necessary to show the total sales to outside customers, nor, except to a limited extent, the totals of the outgoings under their various headings. In such cases appropriate adjustments must be made so as to eliminate unrealised inter-company profits such as profits taken on the sale of goods by one company to another, which goods remain in stock in the hands of that other company at the date of the balance sheet. Inter-company dividends also have to be eliminated.

In preparing the consolidated profit and loss account care has to be exercised to see that profits of subsidiaries accrued prior to the date as on which their shares were acquired are not taken into the balance shown by the consolidated account, but are included in a capital reserve representing profits not available for dividend or current revenue purposes. Deductions must be made in arriving at the balance shown by the consolidated account so as to eliminate the proportionate part of the current profits or losses of subsidiary companies which are attributable to outside interests in those companies. The result of so dealing with the accounts should be that the balance on the profit and loss account represents the undistributed balance of profit (or loss) made by the holding company on its own trading, together with its proportion of all profits (after providing for its share of all losses and additional depreciation if necessary) made by all its subsidiary undertakings from the date as on which they were respectively acquired.

It should be borne in mind that, to the extent that the balance shown by the consolidated profit and loss account represents profits of subsidiary companies which have not been declared in dividend by the subsidiaries to the parent company, the balance, particularly in the cases of foreign subsidiaries and subsidiaries not wholly owned, should not be declared in dividend by the holding company to its shareholders. In this connection it would be useful if a note were inserted in the account indicating the extent to which the balance consists of such undistributed profits.

Consolidated Accounts in Appendix I

Most of the points referred to are brought out in the consolidated accounts in Appendix I, which are set out in full detail to show the workings and which should be studied closely by those desirous of knowing how the figures have been put together. It is only necessary to mention here that the final balance of the consolidated profit and loss account is exactly the same as that appearing in the holding company's amended draft legal balance sheet.

Extract from Speech of Chairman of a Holding Company

It will perhaps not be out of place to quote from a speech made some years ago by the chairman of a large industrial undertaking and holding company with considerable interests in subsidiary enterprises, as it seems to summarise the position very clearly :—

> "The various constituent companies have, of course, continued to prepare their own legal Balance Sheets in the same form as existed when the exchange of shares took place at the formation of this company. These accounts obviously exhibit numerous differences of classification and also show the values of assets on widely varying methods of computation, different, too, in nearly every case from the uniform basis on which the merger acquired them. A mere aggregation of the existing Balance Sheets as they stand would, therefore, be very difficult, and of practically no value to anyone when obtained.

"But you will remember that, as a basis for the merger, a special uniform valuation of all the companies' assets and liabilities was undertaken on very conservative lines, and we continue to prepare on these lines since the date of acquisition a separate domestic Balance Sheet of our own for each company (based entirely upon the position then disclosed and adopted in each case). Any profit or excess of assets over liabilities, as revealed by the special valuation at the merging date, has been put to permanent reserve, and of course, we regard ourselves as entitled to touch only profits made since that date, everything prior thereto being treated as capital as far as we are concerned.

"Now that we can get an aggregate of all these Balance Sheets—which as they are upon a uniform basis may properly be done—they represent the real state of the merger companies taken as a whole, and by watching the progress thus disclosed from year to year we are able to ensure not drawing upon the balance of assets over liabilities which existed (either as a carry-forward or reserve) when we purchased, and also to see that all losses since merging are fully taken into account against profits before our dividend policy is determined."

CHAPTER XIV

SUR-TAX, INCOME TAX AND STAMP DUTY PROBLEMS IN CONNECTION WITH HOLDING COMPANIES

In devising schemes of amalgamation, problems sometimes arise in connection with sur-tax, income-tax and stamp duties which have a material bearing upon the desirability of adopting a particular form of merger, and, after the fusion of interests has been carried through, new taxation problems also arise which call for careful study by those responsible. The enumeration and consideration of these problems in this chapter are not intended to be exhaustive but are designed rather to draw attention to the importance of giving careful consideration to the taxation aspects of merger schemes and to illustrate this by mentioning some of the important points which are often met in practice.

Sur-tax

In formulating schemes for the fusion of interests in the ownership of businesses the sur-tax position is sometimes important, particularly where one of the businesses is owned by a company which comes within the scope of Section 21 of the Finance Act, 1922, or Section 31 of the Finance Act, 1927.

Where the holding company proposes to acquire shares in such a company (as distinct from the business of the company) it is necessary to consider the prospect that sur-tax assessments may be raised upon the company whose shares it is intended to acquire. If, after the holding company has acquired the shares, the subsidiary company is held to have failed to distribute a reasonable proportion of its pre-acquisition profits in the shape of dividend to the former shareholders, then the subsidiary company will be assessed to sur-tax and have no right of recovery from the individuals concerned.

In effect, the assets in which the holding company has acquired an equity will in this event be diminished by the amount of the sur-tax which has to be paid, and unless arrangements are made in the merger scheme so as to procure indemnity from the former individual shareholders the liability to pay the sur-tax may be a material consideration which should be taken into account in considering the terms to be offered by the holding company for the shares.

A similar problem may arise where an internal reorganisation of a holding company group is under consideration. If the holding company is itself a company within the scope of the sections of the Finance Acts referred to above, the winding up of a subsidiary company for the purpose of transferring its business to another company in the group would cause the profits of the subsidiary from the date of its previous accounts to the date of the winding up to be regarded as distributable in dividend and might consequently involve a liability for sur-tax. If the amounts of tax likely to be involved were material, it would be necessary before adopting any particular scheme of reorganisation in such a case to examine the position closely with a view to seeing whether modifications of the proposals could be made so as to reduce the liability. Whether or not such modifications could be devised would depend upon the circumstances of the case and it is not practicable to discuss the matter here.

Income Tax

Income-tax also gives rise to problems which call for careful consideration both by those who formulate merger schemes and those who control the combined business after the merger has been effected.

Setting off Profits of one section of Combined Business against Losses of another

If a company carries on two distinct trades which are assessable separately under Case I of Schedule D, it may

either set off any loss incurred in one business against the profit of the other, under Rule 13 of Cases I and II of Schedule D, or it may claim in respect of the loss a refund of tax under Section 34 of the Income Tax Act, 1918. There is, however, no right to do this if the trades are carried on through the medium of separate subsidiary companies, even if those companies are wholly owned and controlled by the holding company. In such a case the trades are conducted by separate legal entities and there is no provision in the income-tax law which permits the losses of one company to be set off against the profits of another.

This is to some extent a hardship on amalgamations of the holding company type which in order to obtain the maximum benefits of amalgamation may have deliberately concentrated activities in the more profitable units, thus necessarily incurring losses in the other companies in carrying on the business of the combine.

The matter was raised in the House of Commons some years ago, and, in answer to a complaint that losses of one company in a group could not be set off against profits of others associated with it, the Financial Secretary to the Treasury said :—

> "There is one comfort which it is as well to offer to the House, and that is that where a company holds all the shares in other companies there is the possibility of commencing an arrangement at the present time that would enable this result substantially to be achieved, and it seems to be a matter for their ingenuity rather than for an alteration in the Law."

Methods of Obtaining Benefits of Set-Off in Holding Company Groups

Arrangements designed to avoid the hardship to which reference has just been made are in fact sometimes made by companies in holding company groups which thus obtain the

benefit of set-off whilst preserving the separate companies with their individual businesses.

A method sometimes adopted is for one of the companies which is making profits to enter into an agreement with another of the companies which is incurring losses, whereby the first company undertakes to contribute towards the expenses of the second company or to make up its profits to a specified level, the consideration for the undertaking being some reasonable commercial arrangement. The consideration may, for example, be the right to exercise some form of control over the trading activities of the second company, such as power to fix its buying or selling prices. Where the agreement is properly drawn, the amount paid by the contributing company can be claimed as an admissible expense in computing its profits for taxation purposes and can be treated as a reduction of the trading losses of the other company.

Another method is for a company which is incurring losses to enter into an agreement to render services to one of the companies which is making profits and to receive remuneration in the form of commission on profits, management fee, or otherwise. In this case also if the agreement is properly drawn the effect would be to reduce the trading losses of the first company and to allow the remuneration to be deducted as an admissible expense in arriving at the profits of the second company.

Another method which is sometimes adopted, but is not recommended, is for one of the companies which is incurring trading losses to purchase goods from another of the companies which is making profits and so to adjust the prices as to reduce or offset the losses which would otherwise be shown by the first company. As against any advantage which might be derived from a reduction of the income-tax liability by an arrangement of this character, there is the disadvantage that the true operating results of the individual companies are likely

to be obscured and consequently their accounts may be rendered of little service for management purposes.

Other arrangements are sometimes entered into with the object of obtaining the benefits of set-off, but it is impracticable to go into them in this book. In every case, arrangements have to be devised to meet the particular circumstances and careful study of the possible effects of proposed arrangements should be made before they are put into force.

Where arrangements of the kind indicated above are not made, it may, if losses are being made by some companies and profits by others, be desirable to consider the advisability of merging some of the businesses and carrying them on as departments of one company instead of permitting their separate legal existences to continue. If this procedure is adopted, any company whose business is transferred can be wound up, or, if preferred, can be kept in existence in order to preserve its name or for other reasons.

Should a scheme for the transfer of any of the businesses with the object of obtaining the right to set off losses against profits for taxation purposes in the manner just suggested be under consideration, there are important problems which require to be studied before carrying out the scheme. Some of these are referred to below.

Special Problems where the Businesses of two or more Companies are Merged

When it is proposed to transfer to new legal ownership the businesses of one or more companies, whether this be part of a scheme of merger or part of a scheme for the internal reorganisation of a holding company group, the effect of the provisions of Section 32 of the Finance Act, 1926, on the income-tax computations and assessments of both the transferor and the transferee companies must be carefully considered.

The effect of this section is that in the fiscal year when the business is transferred the assessment upon the transferring

company is based, not upon the profits of the preceding year, as would normally be the case, but upon the actual profits of the trade from the previous 5th April to the date of the transfer, subject, of course, to reduction in respect of any arrears of wear and tear allowances or accumulated losses brought forward from previous years.

The Revenue Authorities also have the power, under Section 31 (1) (*b*) of the Finance Act, 1926, to increase the assessment upon the transferring company for the fiscal year preceding the year of change to the actual amount of profits earned in that fiscal year. The taxpayer has, however, no corresponding right to have the assessment for the penultimate year decreased if the actual profits earned fall short of the amount previously assessed.

The assessment upon the purchasing company for the fiscal year in which the transfer takes place is made upon the actual profits of the period from the date of acquisition to the 5th April following so far as the profits of the newly-acquired business are concerned. In this way, taking the assessments upon the transferring and purchasing companies together, tax will be paid upon the actual profits of this fiscal year instead of upon the profits of the preceding accounting period. Further, the acquiring company does not succeed to any rights which may entitle the transferring company to have its assessments reduced by losses or accumulated arrears of wear and tear allowances, etc., brought forward from previous years; in the case of a transfer of the business these rights automatically lapse.

So far as the two fiscal years following that in which the change of ownership occurs are concerned, the acquiring company has the option of being assessed on the actual trading profits of the acquired business earned in those fiscal years (Finance Act 1930, Section 15).

Illustration of Comparative Effects of Different Merger Schemes upon Income Tax Liabilities

The importance of making a careful examination of merger schemes from a taxation standpoint may be illustrated by setting out the figures of a hypothetical case. For this purpose there may be taken into consideration the following assumed adjusted trading results of Company P, which makes up its accounts to 31st March in each year and has accumulated losses and unabsorbed wear and tear allowances amounting to £30,000 in all :—

Year to 31st March 1931	..	Profit	£25,000
,, ,, 1932	..	Profit	65,000
,, ,, 1933	..	Profit	70,000
,, ,, 1934	..	Profit	100,000
,, ,, 1935	..	Profit	105,000

If the shares of Company P are acquired by a holding company and there is therefore no transfer of Company P's business to new ownership, the profits of Company P would continue to be assessed to income-tax in the ordinary way and the assessments would be on the following profits :—

Fiscal Year		£	£
1931/32	Based on profits of year to 31st March, 1931	25,000	
	Less : Set against losses, etc. of £30,000 brought forward	25,000	Nil
1932/33	Based on profits of year to 31st March, 1932	65,000	
	Less : Balance of losses, etc. brought forward	5,000	
			60,000
1933/34	Based on profits of year to 31st March, 1933		70,000
1934/35	Based on profits of year to 31st March, 1934		100,000
1935/36	Based on profits of year to 31st March, 1935		105,000
	Total assessments for five years on Profits of		£335,000

If, however, Company P transferred its undertaking at the close of business on 31st March 1933 to another legal owner, as might occur under a scheme of direct merger or of internal reorganisation within a holding company group, the assessments for the five years would be on the following profits :—

Fiscal Year		£	£
1931/32	This being the year preceding the year of transfer the tax authorities would have the right to re-open the assessment and base it upon the actual profits of the year to 5th April 1932, say	65,000	
	Less : Set against losses, etc. brought forward	30,000	35,000
1932/33	The year of transfer would also be assessed on the basis of the actual profits of the year, i.e. to 5th April 1933, say		70,000
	Note: As to five days of this year the assessment would be on the acquiring company.		
1933/34	The actual profits of the year to 31st March 1934 would be the basis of assessment on the new owner, say ..		100,000
1934/35	Based on profits of year to 31st March 1934		100,000
1935/36	Based on profits of year to 31st March 1935		105,000
	Total assessments for five years on Profits of ..		£410,000

It will be seen that merely as a result of employing the direct merger method of amalgamation in the hypothetical case used for purposes of illustration, income-tax would be payable on profits of £75,000 more than the profits on which tax would be payable were the holding company method employed.

Had the transfer of ownership been delayed only a few days—to the close of business on 6th April 1933, so that it might occur in the fiscal year 1933/34 instead of in the year 1932/33, the assessments for the five years would be on a basis different from both of those summarised above and the following profits would be assessable :—

Fiscal Year		£	£
1931/32	Based on profits of year to 31st March 1931	25,000	
	Less: Set against losses, etc. brought forward	25,000	Nil
1932/33	This being the year preceding the fiscal year of transfer the Revenue Authorities would claim to base the assessment on the profits of the year to 5th April 1933, say	70,000	
	Less: Balance of losses, etc. brought forward	5,000	65,000
1933/34	The transferor company would be assessed on the profits of one day and the acquiring company on the profits of the 364 days ended 5th April 1934, say		100,000
1934/35	Based on the profits of one year from the acquisition, say		100,000
1935/36	Based on profits of year to 31st March 1935		105,000
	Total assessments for five years on Profits of ..		£370,000

From these figures it will be seen that merely by a delay of a few days in the transfer a saving of tax on about £40,000 might be effected, but that even then this method would involve payment of tax on about £35,000 of profits which would not be payable under the holding company method of amalgamation.

In cases of companies in circumstances different from those of the company dealt with in the illustrations, it might well be that the figures would show the direct merger method to be more economical in its taxation aspects. This would be the case if the profits of the business were falling materially at the time of acquisition. The purpose of giving the illustrations above is to emphasise the importance of examining closely from a taxation standpoint any proposals formulated for effecting a merger and not to indicate that one method is, in all circumstances, preferable to another.

Right to set off Past Losses and Wear and Tear Accumulations Against Future Profits Lost if Business is transferred to New Ownership

It has already been mentioned that when a business which has accumulated losses or unabsorbed wear and tear allowances is transferred to another company, the transfer has the effect of terminating the right to set off the past losses against future profits and the benefit of the accumulated wear and tear allowances is also lost. This is a very important point when considering whether an amalgamation scheme should take the form of a direct merger or that of a holding company or whether it is desirable to carry out a merger of the businesses of companies in a holding company group or to keep the businesses in the hands of their separate companies.

If, for example, a company which has accumulated losses during the past two or three years of £100,000 and unabsorbed wear and tear allowances of say £50,000 were to make profits during the subsequent years, the poor results of the past would reduce its future tax liabilities by a substantial amount. In certain circumstances the reduction would be equal to tax on the whole of the losses and wear and tear allowances carried forward. Under a holding company merger scheme, assuming no change in the ownership of the company's business, the foregoing benefits would not be prejudiced by the amalgamation. If, however, as part of a reorganisation of a holding company group or of a scheme of direct merger the company were to transfer the whole of its trading activities to another legal entity, income-tax would be payable by the acquiring company on the whole of the profits earned after the date of the transfer without any allowance being obtained in respect of the losses and unabsorbed wear and tear allowances of the previous owner of the business. The adoption of such a scheme without modification might therefore involve the payment of income-tax on profits of £150,000 more than would otherwise become subject to taxation.

In some cases the prejudicial effects of a direct merger to which reference has been made do not arise or may be avoided. If, for example, a merger of the business of the company mentioned above as having accumulations of losses and wear and tear allowances were proposed to be effected with one or more other companies, the benefit of the accumulations need not be lost if the scheme of amalgamation were so arranged that the company having the accumulations were itself used as the merger company and were itself to acquire the businesses of the other companies.

Acquisition of Part of an Existing Business not Necessarily Treated as setting up of New Business

It must also be remembered that whilst it is true that a company which acquires an additional business is treated for income-tax purposes as if it had set up a new trade or business (Section 32 of Finance Act, 1926) the regulation does not apply where the transferee company acquires only a part of a trade or business similar to its own existing business. It has been held by the Courts (*Stockham v. Wallasey Urban District Council* (95 L.T. 834)) that there can be no succession to a part of a business. If, therefore, there is a group of several companies and it is desired to concentrate the trading activities by transferring the business of one of the companies to other ownership within the group, changes in the basis of subsequent assessments which arise in the case of a succession or a purchase of a new business might be avoided if the business to be transferred were divided into two parts, not necessarily equal, and were transferred separately to other companies which are carrying on businesses similar to those which are to be transferred to them. In such a case each of the companies acquiring the parts would claim that all that it had done was to expand its existing business and that no adjustment under Section 32 of the Finance Act, 1926, should be made in its assessments.

The importance of considering the circumstances in order to see whether taxation advantages would accrue from the arrangement of a reorganisation in a particular manner may be illustrated by the figures of a hypothetical case.

If Company R, which in the year ended 31st December 1933 made a profit of £50,000 and was assessed on that amount in the fiscal year 1934/35, were on 1st April 1934 to take over the whole business of Company F and to earn £73,000 in the newly acquired business in the year to 31st March 1935, Company R would become liable to an additional assessment for the fiscal year 1933/34 on the five days trading of the acquired business from 1st to 5th April 1934, say £1,000, and for the fiscal year 1934/35 its assessment would be increased from £50,000 to £123,000. This would represent an assessment based on its own profits of the year 1934 and an additional assessment on the profits of the new business for the full twelve months from the date of acquisition.

If, however, the business carried on by Company F were of exactly the same nature as that carried on by Company R and the reorganisation of the group were arranged so that a part only (even a large part) of the business of Company F were acquired by Company R, there would be no increase in Company R's assessment for the year 1933/34 and its assessment for 1934/35 would remain at £50,000. Company R would claim that it had merely extended its existing activities and had not started an additional trade. In these circumstances, the first increase in Company R's assessment would be in the year 1935/36 and that increase would be limited to the additional profits arising in the period from 1st April to 31st December 1934 from the part of the business acquired from Company F, that is, approximately three-fourths of £73,000, the assumed profits of the additional business for the year to 31st March 1935. At the same time Company F would retain its right to apply any losses or wear and tear allowances carried forward against future profits in the part

of its business not disposed of to Company R. Considerable economy in taxation payments might thus be effected by arranging the reorganisation as a partial sale of Company F's business on the lines indicated, rather than as a sale of the whole undertaking to Company R.

It should perhaps be added that the question of fact whether additional trading activities taken over from another company represent merely an extension of the transferee company's existing business or the setting up of a new trade is not always easy to answer. It is one on which the decisions of the Courts appear to afford little precise guidance, and careful examination of the particular circumstances is always necessary in order to reach a conclusion in such cases.

Where the transfer of the whole of one company's undertaking or goodwill to another company is involved, or where the vendor company carries on two or more distinct trades or ventures and disposes of one of them or the goodwill of one of them, the acquiring company is necessarily treated for income-tax purposes as if it had set up a new trade, however similar to its own business the new acquisition may be. If only a part of the transferor company's business is acquired and that part is distinct in character from the business already being carried on by the transferee company, the same consequences follow, namely, that the transferee company is, as regards its extension in activities, treated for taxation purposes as having set up a new trade. The transferee company in such a case has, of course, the right under Rule 13 of Case I of Schedule D to set off any future losses which may be incurred in either of the trades or under Section 34 of the Income Tax Act, 1918, to claim refund of tax in respect of any such losses.

Reliefs Obtainable by Non-Trading Companies in Respect of Management Expenses

A company whose business consists mainly in the making of investments and the principal part of whose income is derived

therefrom, on proving to the Special Commissioners that it has been charged to tax by deduction or otherwise and has not been charged under the Rules of Case I of Schedule D (as a trading company), is entitled under Section 33 of the Income Tax Act, 1918, to claim repayment of so much of the income-tax which it has suffered as is equal to the amount of tax on any sums disbursed by it as expenses of management for the year.

This relief is subject to the proviso that the tax ultimately suffered is not less than would have been payable if the profits had been charged in accordance with the Rules of Case I of Schedule D. When any part of the expenses is disallowed under this proviso, the amount so disallowed may be carried forward and treated as if it were disbursed for any of the six years of assessment following. At one time the Inland Revenue authorities claimed the right to apply this proviso in all cases where refund of tax on management expenses was claimed under Section 33 of the Income Tax Act, 1918, but since the decision of the case of *Simpson v. Grange Trust Ltd.* (152 L.T. 517) the proviso is only to be applied in cases where the Revenue would have had the right to assess the profits under Case I of Schedule D if they thought fit.

In cases where the restriction still applies it may usually be overcome by the holding company charging its expenses, or a part thereof, to its subsidiaries as expenses incurred on their behalf. Where, as often happens, most of the expenses of the holding company are incurred in connection with the trades carried on by its subsidiaries, no objection will be taken by the Revenue authorities to a charge of this kind for expenses in the subsidiaries' accounts.

Trading Holding Companies: Claims for Relief under Section 34.

Where the holding company is itself a trading company, Section 33 of the Income Tax Act, 1918, will not apply. The

company will be assessed under Case I of Schedule D on the results of its own trading, and its expenses of management will form a deduction in arriving at its profits. If the company makes a loss in such circumstances and has taxed income from its subsidiaries or from other sources, relief can be obtained under Section 34, Income Tax Act, 1918, to the extent of tax upon the amount of the loss or the amount of its income taxed by deduction and assessment, whichever is the less. Thus, if a company has made a loss of £50,000 on its own trading, and has taxed income from its subsidiaries of £40,000, the tax on this £40,000 can be recovered, but in such circumstances the £50,000 cannot be carried forward and set off against subsequent profits made by the holding company in its trade. The amount so carried forward is restricted to the balance of £10,000 in respect of that part of the loss on which relief has not been obtained under Section 34.

Liability of Holding Company to Income Tax on Profits on Dealings in Investments

It sometimes happens that the business of a holding company partly consists of dealing in investments. As a dealer or trader in investments, such a company would be liable under Case I of Schedule D on its trading profits in the same way as if it were any other kind of trader. It would probably hold two classes of investments—(*a*) those which it holds as a trader in investments and (*b*) those which it holds in its subsidiaries. The distinction between these two classes, however, is not always clearly discernible, and if the company sells its holding in some of its subsidiary companies at a profit, it is possible that the Revenue authorities might claim that as the company is one which trades in investments, and there is a profit on a sale of an investment, the profit is taxable.

The law in this class of case was summarised by Clerk, L.J., in the case of *Californian Copper Syndicate v. Harris* (5 T.C.

159). After stating that the enhanced price obtained in the realisation of an investment is not assessable when what is done is merely the realisation or change of an investment, but is assessable when the change constitutes the carrying on of a business, the Judge continued :—

" What is the line which separates the two classes of cases may be difficult to define and each case must be considered according to its facts, the question to be determined being, ' is the sum or gain that has been made a mere enhancement of value by realising a security, or is it a gain made in an operation of business in carrying out a scheme for profit making ?' "

If the holding company is a company which engages in dealing in investments, any gain made in the realisation of its investments, whether of marketable securities or of shares in its own subsidiaries, would appear to be assessable. If, however, the company is not one which deals in investments the profit realised by the sale of shares in a subsidiary company would be a " mere enhancement of value by realising a security," in other words, a capital profit, and would not be assessable.

Foreign Subsidiaries

Where a subsidiary company of a British holding company is registered abroad special taxation problems arise. If such a company is in the technical sense *resident* in this country it is liable to British Income Tax under Case I of Schedule D in precisely the same way and to the same extent as if it were registered and operating wholly in this country. If, on the other hand, the subsidiary company is technically resident abroad, it incurs no liability to British Income Tax. In this case the holding company is liable under Case V of Schedule D on the amount of dividends which it receives from the subsidiary, but any profits of the latter not distributed in dividend are not liable to British Income Tax.

Where a foreign subsidiary is making profits which it is desired to retain abroad for purposes of development, etc., the question as to which is the country where the company is

resident becomes of considerable importance. It is often worth while so to arrange the control and management of the foreign subsidiaries of a British holding company as to make them "resident" abroad and thus not liable to tax on their undistributed profits. On the other hand, it sometimes happens that, from considerations apart from taxation, it is desirable to retain control and close oversight in this country, notwithstanding the increased liability to tax thereby involved. As in so many other holding company problems it is not possible to lay down hard and fast rules on the subject, but each case must be judged on its merits and by reference to its own circumstances.

The word "resident" in this connection has a technical meaning which has been explained from time to time in the Courts. A company is not necessarily resident in the country where it is registered. This was clearly laid down in the dictum that "The residence of a joint stock company is where its operations are controlled." (*Cesena Sulphur Co. v. Nicholson*, I.T.C. 97). In another case it was said that "a company resides for purposes of Income Tax where its real business is carried on . . . and the real business is carried on where the central management and control actually abide." (*De Beers Consolidated Mines Ltd. v. Howe*, 5 T.C. 213.)

What constitutes the control of a company so as to determine its residence is a question of fact, and it is only from reports of decided cases that an opinion can be formed as to the view which the Commissioners of Income Tax would probably take of the facts in a particular case. They appear usually to take into consideration such questions as—

(1) where the directors of the foreign subsidiary company reside,

(2) where they hold their meetings,

(3) whether at the directors' meetings the subsidiary company's trading activities are managed or controlled, or whether the directors' meetings are purely formal, the

control and management in substance being, by correspondence or otherwise, in the hands of persons in this country,

(4) in which country is the subsidiary incorporated, and so on.

The fact that the parent company may hold, either in its own name or through nominees, the whole of the share capital of the subsidiary company, does not of itself render the parent company liable to assessment in respect of the profits of the subsidiary company. If the business management of the foreign subsidiary can only be exercised by directors abroad and the parent company or its directors have no power to intervene, except in their capacity as shareholders in the subsidiary company, then the foreign subsidiary company is for tax purposes resident abroad and is not liable to assessment under Case I of Schedule D.

Stamp Duties

There were granted in the Finance Act, 1927, and its subsequent amendments reliefs from stamp duties which gave some encouragement to the amalgamation of businesses both by the direct merger method and by means of the holding company.

Where a company enlarges its share capital in order to issue new shares in exchange for shares representing not less than 90 per cent. of the issued share capital of another company, the purchasing company (e.g. a holding company) is now exempted from stamp duty on the increase in its capital which is to be issued in exchange for the acquired shares. This exemption is limited to the amount of the share capital (whether issued or not) of the acquired company or to the amount which is to be treated as paid up on the shares which are to be issued in exchange, whichever amount is the less.

It will be observed that in specifying the minimum proportion of the shares which must be acquired in order to obtain exemption, the Act has reference to the total issued share capital

and does not deal with individual classes of shares : this may be an important consideration in devising a scheme of merger on the holding company method when deciding, for instance, whether or not to include the preference shares of the merging companies in the scheme.

Provisions are included in the section giving exemption in the same circumstances from the stamp duty which would otherwise be payable on the transfers of the shares involved in the transaction.

The section also facilitates internal reorganisation of combines arranged on the holding company basis by granting exemption from stamp duty on increases in share capital and on transfers of assets to a company which increases its capital or issues previously unissued capital for the purpose of acquiring the whole or part of the assets of an existing undertaking in exchange for its own shares. This privilege has been further extended by Section 42 of the Finance Act, 1930, which grants exemption from stamp duty on any transfer of an interest in property between two companies in cases where either of the companies owns not less than 90 per cent. of the share capital of the other or not less than this proportion of the share capitals of both companies is owned by a third company.

These provisions are sometimes found to be of assistance where it is desired to amalgamate similar departments carried on by different subsidiary companies, or to concentrate the ownership of investments or other assets previously held by several of the constituent concerns. If, for example, the holding company desires to concentrate the manufacturing or selling activities of its subsidiaries in the works or management of one company, or to re-allocate the ownership and control of sub-subsidiary companies as between the different subsidiaries, there is now no obstacle such as previously existed in the shape of stamp duties to discourage the reorganisation. A company could be formed for the purpose, or one of the existing subsidiary

companies could increase its share capital and acquire the assets of the relative departments of the other subsidiaries by issuing shares in exchange for them. Alternatively, one of the companies could purchase the assets held by the other companies for some other consideration which might be thought reasonable.

The foregoing paragraphs are merely a brief outline of Section 55 of the Finance Act, 1927, and Section 42 of the Finance Act, 1930, in so far as they affect the acquisition or internal reorganisation by a holding company of its interests in subsidiary concerns, and the sections themselves with subsequent amendments should be referred to in considering any particular case.

APPENDIX I

HOLDING

PRELIMINARY DRAFT BALANCE

(Drawn up to illustrate some of the

		£	£
SHARE CAPITAL—			
Authorised : £1,600,000 in Shares of £1 each ..			1,600,000
Issued : Ordinary Shares of £1 each, fully paid ..		970,000	
Issued in exchange for Ordinary Shares in Subsidiary A.		30,000	
(Includes 80,000 Shares held by Subsidiary B.)		1,000,000	
5 per cent. Cumulative Preference Shares of £1 each, fully paid		600,000	
			1,600,000
5 PER CENT. FIRST MORTGAGE DEBENTURE STOCK secured by a first floating charge on the Company's Assets (includes £25,000 held by Subsidiary B.)			720,000
SUNDRY CREDITORS—			
Amount owing to Subsidiary D. on Current A/c		10,000	
Sundry Creditors and Provisions for Accruing Expenses and Taxation		309,400	
			319,400
RESERVE (includes premium of £120,000 on issue of 30,000 Ordinary Shares in payment for 450,000 Ordinary Shares of Subsidiary A.)			500,000
PROFIT AND LOSS ACCOUNT as at commencement of year (after paying Final Dividends for previous year)		2,500	
Add—Net profit, viz. :			
Sub. B. Interim Dividend ..	£652,500		
Sub. B. Final Dividend	17,400		
Interest charged, Sub. A. (including Debenture Interest)	57,150		
Profit on Sale of Goods purchased from Sub. A.	50,000		
Company C. Debenture Interest ..	9,450		
	786,500		
Losses on Outside Trading after charging Debenture Interest ..	280,000		
	506,500		
Less—Dividend on Preference Shares	30,000		
		476,500	
			479,000
CONTINGENT LIABILITIES—			
Bills under Discount, Subsidiary A.		£110,000	
Guarantee of Loan for Subsidiary B.		£600,000	
The Holding Company has also guaranteed the Capital and Dividends of the £14,000 10 per cent. Preference Capital of Sub-subsidiary C.			£3,618,400

NOTE.—On investigation the above Balance Sheet is altered and

COMPANY

SHEET, 31st December 1934

points referred to in this book)

	£	£
Goodwill (at Cost)		150,000
Freehold and Leasehold Land and Buildings (at Cost, *less* Amounts written off)		100,000
Plant, Machinery, Fixtures, Fittings, &c. (at Cost, *less* Depreciation)		260,000
Stock in Trade—As valued by Officials		25,000
Sundry Debtors and Prepaid Charges—		
Subsidiary A. Advances	750,000	
,, B. Final Dividend	17,400	
,, B. Current Account	2,000	
Others	108,500	
		877,900
Bills Receivable—		
Subsidiary A.		215,000
Investments, viz.—		
Subsidiary Companies at Cost:		
Subsidiary A.—		
25,000 Preference Shares at 10s.	12,500	
450,000 Ordinary Shares at 6s. 8d.	150,000	
£250,000 Debenture Stock	250,000	
Subsidiary B.—		
17,400 Shares at £75	1,305,000	
Subsidiary D.—		
20,400 Shares at £2 10s.	51,000	
Sub-subsidiary Company at Cost:		
Sub-subsidiary C.—Debentures	210,000	
	1,978,500	
Less Dividend declared and paid by Subsidiary B. out of Surplus existing at Date of Purchase ..	174,000	
	1,804,500	
British Government Securities, etc.—At cost ..	140,000	
		1,944,500
Cash at Bank and in Hand		46,000
		£3,618,400

AMENDED DRAFT BALANCE

(As altered from Preliminary

	£	£
SHARE CAPITAL: Authorised and Issued—		
Ordinary Shares of £1 each	1,000,000	
5 per cent. Cumulative Preference Shares of £1 each	600,000	
		1,600,000
Note.—80,000 of the Company'sOrdinary Shares are held by a Subsidiary Company.		
5 PER CENT. FIRST MORTGAGE DEBENTURE STOCK (Redeemable 1950)—		
Secured by a first floating charge on the Company's Assets		720,000
Note.—£25,000 of the Company's Debenture Stock is held by a Subsidiary Company.		
AMOUNTS OWING TO SUBSIDIARY COMPANIES ..	35,000	
Less—Company's own Debenture Stock included therein	25,000	
		10,000
SUNDRY TRADE CREDITORS AND PROVISIONS FOR ACCRUING EXPENSES AND TAXATION		309,400
GENERAL RESERVE		380,000
CONTINGENT LIABILITIES—		
The Company has guaranteed the Capital and Dividends of the £14,000 10 per cent. Preference Capital of a Sub-subsidiary Company. The Sub-subsidiary is making Profits and no Loss is anticipated under the guarantee. The Company has also entered into the following commitments on behalf of Subsidiary Companies :		
Guarantee of Bank Loan	600,000	
Bills Discounted	110,000	
	£710,000	
Forward ..		£3,019,400

SHEET, 31st December 1934

Draft on pages 164 and 165)

	£	£
Goodwill (at Cost)		150,000
Freehold and Leasehold Land and Buildings (at Cost, *less* Amounts written off)		100,000
Plant, Machinery, Fixtures, Fittings, etc. (at Cost *less* Depreciation)		260,000
Shares in and Amounts Owing from Subsidiary Companies (including Goodwill *less* Capital Reserves £404,028)		
Shares—At Cost	1,224,500*	
Amounts owing :		
Debenture Indebtedness, Loans, etc. at Cost	1,215,000*	
Current Indebtedness including dividend declared since date of Balance Sheet ..	19,400	
Undistributed Profits (*less* Profit on Inter-company Transfers of Stock in Trade not sold to outside Customers at Balance Sheet date). (See page 183.)	25,373	
	2,484,273	
Less.—Reserve for Losses of Subsidiary Company	526,250	1,958,023

Note.—On the basis of the latest balance sheets of the subsidiary undertakings the above interests were represented by net tangible assets in those undertakings of book values as under :—

Land, Buildings, Plant, Machinery, etc.		£1,905,000
Shares, Debentures and Indebtedness of the Holding Company at par ..		115,000
Stock in Trade		757,730
Debtors, Bills Receivable and Cash		618,800
		3,396,530
Less.—Debentures, Loans and other Liabilities, Final Dividends, etc. ..	1,586,500	
Interests of Outside Shareholders ..	256,035	1,842,535
Total Net Assets at book values, exclusive of goodwill		£1,553,995

	£	£
Amounts Owing from Sub-subsidiary Company—Debentures at Cost		210,000
Stock in Trade—As Valued by Officials ..		25,000
Forward ..		£2,703,023

HOLDING

AMENDED DRAFT BALANCE

		£
Forward ..		3,019,400
		£3,019,400

REPORT OF THE AUDITORS TO THE

We report that we have examined the above Balance Sheet with the Books have required. In our opinion such Balance Sheet is properly drawn up so as to December 1934, according to the best of our information and the explanations

London.

..........1935

	£
*INVESTMENTS as on Page 165 (*less* £460,000 Debentures)	1,344,500
Less.—Premium Account (relating to Subsidiary A.)	120,000
	£1,224,500
DEBENTURE STOCK OF SUBSIDIARY A.	250,000
ADVANCES TO SUBSIDIARY A.	750,000
BILLS RECEIVABLE (SUBSIDIARY A.)	215,000
	£1,215,000
‡HOLDING COMPANY	2,500
SUBSIDIARY D. PROPORTION	10,200
	£12,700

§ For details see Consolidated Balance Sheet (Pages 191 and 193.)

COMPANY (cont.)

SHEET, 31st December 1934 (*continued*)

		£	£
Forward ..			2,703,023
Sundry Debtors and Prepaid Charges ..			108,500
British Government Securities, etc.—at Cost .. .. (Market Value £142,000)			140,000
Cash at Bank and in Hand			46,000
Profit and Loss Account			
Net Loss for year after deducting Debenture Interest and taking into account Profits and Losses of Subsidiary Undertakings	£4,577		
Dividend on Preference Shares ..	30,000	34,577	
Less.—Credit balance brought forward from last year		12,700‡	21,877§
			£3,019,400

Members of the Holding Company

of the Company and have obtained all the information and explanations we exhibit a true and correct view of the state of the Company's affairs as at 31st given to us and as shown by the books of the Company.

....

Chartered Accountants.

Auditors.

*If the provision of £526,250 for losses of Subsidiary A. had been applied to write down the book values of interests in subsidiary companies instead of being carried to Reserve for Losses of Subsidiary Company, it would have been applied first to write off the cost of the shares in Subsidiary A. and then the balance of the provision would have been applied in reduction of the indebtedness. The written down figures for balance sheet purposes would have been as under :—

	Shares	*Debenture Indebtedness &c.*
	£	£
Cost	1,224,500	1,215,000
Less Written off	42,500	483,750
Written down book values	£1,182,000	£731,250

HOLDING

DRAFT PROFIT AND LOSS ACCOUNT FOR

	£	£
To Loss on Company's own Trading after Providing for all Expenses of Working and Management Exclusive of Depreciation and Directors' Fees ..		171,150
,, Directors' Fees	4,350	
Less.—Borne by Subsidiary Companies ..	1,500	
		2,850
,, Depreciation		15,000
,, Income Tax		5,000
,, Debenture Interest		36,000
		*£230,000
To Net Loss for Year Brought Down ..		4,577
,, Preference Dividend		30,000
		£34,577

STATEMENT IN REGARD TO

One subsidiary company earned a profit during its last financial year and Company has been taken into the Holding Company's Profit and Loss Account

In the case of another subsidiary company no accounts were made up to and, accordingly, no results of that subsidiary have been brought into the

The remaining subsidiary company sustained a loss during its last financial has been carried forward in the accounts of that company. In the Profit and made for this loss.

*Debit Total £230,000, made up as follows :—	£
Losses on Outside Trading after charging Debenture Interest (see page 164)	280,000
Less.—Profit on Sale of Goods purchased from Subsidiary A.	50,000
	£230,000

COMPANY

THE YEAR ENDED 31ST DECEMBER, 1934

		£	£
By PROFITS (*less* LOSSES) OF SUBSIDIARY AND SUB-SUBSIDIARY COMPANIES FOR YEAR (INCLUDING PROFITS NOT DRAWN IN DIVIDEND)			
Profits applicable to this Company's interests in Companies B and C ..		694,523†	
Deduct.—Loss of Company A	£526,250		
Less.—Interest payable to this Company included therein	57,150	469,100	
			225,423
,, NET LOSS FOR YEAR CARRIED DOWN ..			4,577
			£230,000
By BALANCE BROUGHT FORWARD FROM LAST YEAR INCLUDING PROPORTION (£10,200) OF UNDRAWN PROFITS OF SUBSIDIARY COMPANY			12,700
,, BALANCE CARRIED TO BALANCE SHEET ..			21,877
			£34,577

SUBSIDIARY COMPANIES

the proportion of this profit attributable to the shares held by the Holding for the year.

a date or became available within the Holding Company's last financial year accounts for the year.

year which, to the extent that it exceeded profits previously undistributed, Loss Account of the Holding Company for the year, full provision has been

.... } Directors.
....

†Profits of Subsidiary and Sub-subsidiary Companies £694,523, made up as follows :—

	£
Proportion of Profits of Subsidiary B. and Sub-subsidiary C. applicable to Holding Company's interest (see page 193)	685,073
Add.—Debenture Interest paid by Sub-subsidiary C.	9,450
	£694,523

SUBSIDIARY

PRELIMINARY DRAFT BALANCE

(Drawn up to illustrate some of the

	£	£
SHARE CAPITAL—		
Authorised		750,000
Issued :		
Ordinary Shares of £1 each, fully paid	500,000	
5 per cent. Cumulative Preference Shares of £1 each, fully paid	50,000	
(There are arrears of Preference Dividend amounting to £2,500)		550,000
5 PER CENT. FIRST MORTGAGE DEBENTURE STOCK (secured by a first mortgage on the properties and a floating charge on the other assets)		250,000
RESERVE—		
At date of Purchase by Holding Company ..		80,000
BILLS PAYABLE—		
To Holding Company—of which held by latter ..	215,000	
discounted by latter ..	110,000	
		325,000
SUNDRY CREDITORS—		
Holding Company Loan	750,000	
Subsidiary B. Loan	101,000	
Other Creditors, Accruing Expenses, &c. ..	290,000	
		1,141,000
CONTINGENT LIABILITIES—		
Bills under Discount	312,000	
Forward Contracts	150,000	
	£462,000	
		£2,346,000

PRELIMINARY DRAFT PROFIT AND LOSS ACCOUNT

	£	£
To LOSS ON TRADING BEFORE CHARGING DEPRECIATION AND DIRECTORS' FEES		366,850
,, DEPRECIATION		90,000
,, DIRECTORS' FEES		1,000
,, INTEREST CHARGES ON :		
Debenture Stock (owned by Holding Company)	12,500	
Loan from Holding Company	44,650	
Loan from Company B	10,000	
		67,150
		£525,000

Note.—The Holding Company decides to provide in its own Accounts for the whole outside holdings of preference shares in Company A (£1,250) as a charge to be taken

HOLDING COM

	£
25,000 Preference Shares at 10s. each	12,500
450,000 Ordinary Shares at 6s. 8d. each	150,000
£250,000 Debenture Stock at par	250,000

"A"

SHEET, 31ST DECEMBER 1934

points referred to in this book)

	£	£
GOODWILL (at Cost)		150,000
FREEHOLD LAND AND BUILDINGS (at Cost, *less* Amounts written off)		500,000
PLANT AND MACHINERY (at Cost, *less* Depreciation)		670,000
STOCKS (includes £201,250 purchased from Subsidiary B. this year at a Profit to B. of 20 per cent. or £40,250)		315,000
SUNDRY DEBTORS—		
Sub-Subsidiary C.	2,500	
Others	171,500	
		174,000
BILLS RECEIVABLE		25,000
CASH AT BANK AND IN HAND		7,000
PROFIT AND LOSS ACCOUNT—		
Net Loss after charging Debenture Interest ..	525,000	
Less Credit Balance at Date of Purchase by Holding Company	20,000	
		505,000
		£2,346,000

FOR THE YEAR ENDED 31ST DECEMBER, 1934

	£
By NET LOSS FOR YEAR AS PER BALANCE SHEET ..	525,000
	£525,000

of this loss of £525,000 and also to regard the cumulative preference dividend on the into account in arriving at its own results.

PANY'S INTEREST

	£
Preference Shares acquired for Cash	12,500
Purchase price of Ordinary Shares satisfied by issue of 30,000 Ordinary Shares in Holding Company of a Market Value of £5 each	150,000
Debenture Stock Purchased for Cash	250,000
	£412,500

SUBSIDIARY

PRELIMINARY DRAFT BALANCE

(Drawn up to illustrate some of the

		£	£
SHARE CAPITAL, Authorised and Issued—			
17,500 Shares of £10 each			175,000
LOAN FROM BANKERS (secured by Guarantee of Holding Company)			600,000
SUNDRY CREDITORS—			
Holding Company on Current Account		2,000	
Sub-subsidiary C.		1,000	
Others		136,000	
			139,000
RESERVE—			
At Date of Purchase by Holding Company ..		30,000	
Added since		20,000	
			50,000
PROFIT AND LOSS ACCOUNT—			
At Date of Purchase by Holding Company ..		200,000	
Less Dividend since paid thereout		175,000	
		25,000	
Net Profit since— (Includes : Dividend to come from Sub-subsidiary C., £18,200 Interest on Loan to Subsidiary A., £10,000)		729,000	
		754,000	
Less : Transferred to Reserve	£20,000		
Interim Dividend paid November 1934, 375 per cent	656,250		
		676,250	
			77,750
			£1,041,750

Holding Company acquired 17,400

PRELIMINARY DRAFT PROFIT AND LOSS ACCOUNT

	£
To DEPRECIATION	32,500
,, DIRECTORS' FEES	300
,, INCOME TAX	193,000
,, NET PROFIT FOR YEAR AS PER BALANCE SHEET .. .. (exclusive of undrawn share of Company C's profits)	729,000
	£954,800

STATEMENT PURSUANT TO SECTION

The Subsidiary Company made a profit during the year 1934 which profit the dividend receivable by this Company. This Company's proportion of

"B"

SHEET, 31st December 1934

points referred to in this book)

	£	£
Freehold Land and Buildings (at Cost, *less* Amounts written off)		150,000
Plant and Machinery (at Cost, *less* Depreciation)		265,000
Investments at Cost—		
2,600 Ordinary Shares of £10 each in Sub-subsidiary C.	60,000	
80,000 Ordinary Shares of £1 each in Holding Company	100,000	
£25,000 First Mortgage Debenture Stock of the Holding Company	20,000	
		180,000
Stock in Trade—As Valued by Officials ..		202,750
Sundry Debtors—		
Subsidiary A. Loan	101,000	
Sub-subsidiary C. Final Dividend for 1934 declared since Balance Sheet Date	18,200	
Others	96,300	
		215,500
Cash at Bank		28,500
		£1,041,750

Shares at £75 each = £1,305,000.

FOR THE YEAR ENDED 31st December, 1934

	£	£
By Profit on Trading (including £40,250 on goods sold to Company A and still held by that Company) before Charging Depreciation and Directors' Fees		925,350
,, Interest and Dividends Receivable :		
Holding Company Debenture Interest	1,250	
Dividend from Company C.	18,200	
Company A Loan Interest	10,000	
		29,450
		£954,800

126 OF THE COMPANIES ACT 1929

has been brought into the above Profit and Loss Account to the extent of the Subsidiary Company's undistributed profit for the year amounted to £260

.... } Directors
....

PRELIMINARY DRAFT BALANCE

(Drawn up to illustrate some of the

	£	£
SHARE CAPITAL, Authorised and Issued—		
2,600 Ordinary Shares of £10 each	26,000	
1,400 10 per cent. Preference Shares of £10 each	14,000	
		40,000
(The Preference Shareholders have no Voting Rights except in special circumstances but are entitled under Company's Articles to share *pro rata* with Ordinary Shareholders in Surplus Assets on a winding up. Their Capital and Dividends have been guaranteed by the Holding Company).		
$4\frac{1}{2}$ PER CENT. FIRST MORTGAGE DEBENTURES (secured by first charge on Assets)		210,000
SUNDRY CREDITORS—		
Subsidiary A.	2,500	
Others	129,000	
		131,500
RESERVE—		
At Date of Purchase by Subsidiary B.		40,000
PROFIT AND LOSS ACCOUNT—		
At Date of Purchase by Subsidiary B.	120,000	
Add: Net Profit after charging Debenture Interest (subject to payment of Preference Dividends for year to date)	20,000	
		140,000
		£561,500

Subsidiary B. owns all Ordinary Shares at cost of £60,000, but the Holding mately controlled by the Holding Company, it is not a subsidiary of that pany has provided working capital to the extent of £210,000 on First Debenture.

PRELIMINARY DRAFT PROFIT AND LOSS ACCOUNT

	£
To DEPRECIATION	17,500
,, DIRECTORS' FEES	200
,, INCOME TAX	7,000
,, INTEREST ON DEBENTURES (owned by Holding Company)	9,450
,, NET PROFIT FOR YEAR AS PER BALANCE SHEET	20,000
	£54,150

Note.—The Preference Dividend of £1,400

SHEET, 31st December 1934
points referred to in this book)

	£	£
Leasehold Buildings (at Cost, *less* Amounts written off)		50,000
Machinery and Fixtures (at Cost, *less* Depreciation)		130,000
Stock in Trade—as Valued by Officials ..		150,000
Sundry Debtors—		
Subsidiary B.	1,000	
Others	219,000	
		220,000
Cash at Bank and in Hand		11,500
		£561,500

Company owns no Shares in Company C. Thus although Company C. is ulti-
company within the meaning of the Companies Act, 1929. The Holding Com-

FOR THE YEAR ENDED 31st December 1934

	£
By Trading Profit for Year before Charging Depreciation and Directors' Fees	54,150
	£54,150

falls to be paid out of the above profit.

SUBSIDIARY

PRELIMINARY DRAFT BALANCE

(Drawn up to illustrate some of the

		£
SHARE CAPITAL, Authorised and Issued—		
40,000 Shares of £1 each		40,000
SUNDRY CREDITORS		110,000
RESERVE—		
At Date of Purchase by Holding Company		170,000
PROFIT AND LOSS ACCOUNT—		
As last Balance Sheet (since Date of Purchase) ..	£5,000	
Add : Profit for year to date	15,000	
		20,000
		£340,000

NOTES.—Holding Company purchased bare controlling interest (51 per Balance Sheet as at 30th November 1934 was not received when Holding 30th November 1933 is the same as that which was included in the Holding

"D"

SHEET, 30TH NOVEMBER 1933
points referred to in this book)

	£
MACHINERY AND PLANT (at Cost, *less* Depreciation)	140,000
STOCK IN TRADE—as Valued by Officials	130,000
SUNDRY DEBTORS (*less* Reserve)	45,000
AMOUNT OWING FROM HOLDING COMPANY	10,000
CASH AT BANK	15,000
	£340,000

cent.) 20,400 Shares at £2 10s. each = £51,000.
Company's 1934 accounts were being prepared. Above Balance Sheet as at
Company's previous accounts.

SUBSIDIARY UNDERTAKINGS

PRELIMINARY SUMMARY STATEMENT

VIEW OF HOLDING

(Incorporating the last available figures of one subsidiary company as at 30th

---

Freehold and Leasehold Land and Buildings—At Cost, *less* Amounts written off .. ..

Plant, Machinery, Fixtures & Fittings, &c.—At Cost, *less* Depreciation

Shares and Debenture Stock of Holding Company (at par value) ..

Stock in Trade .. ..

Sundry Debtors and Prepaid Charges (*less* Reserves) .. .. ..

Bills Receivable .. ..

Cash at Bank and in Hand .. ..

Associated Companies .. ..

Less :

Debentures and Debenture Stock .. ..

Loans .. ..

Sundry Creditors and Bills Payable .. ..

Final Dividends .. ..

Associated Companies .. ..

Do. *Profit on Stocks held* .. ..

Carry forward

(including Sub-subsidiary Company)

OF ASSETS AND LIABILITIES FROM POINT OF

COMPANY

Nov. 1933 and those of all other subsidiary undertakings as at 31st Dec. 1934)

A.	B.	C.	D.	Total: Inter Co. Balances	Total: Net
£	£	£	£	£	£
500,000	150,000	50,000			700,000
670,000	265,000	130,000	140,000		1,205,000
	105,000				105,000
315,000	202,750	150,000	130,000	40,020	757,730
171,500	96,300	219,000	45,000		531,800
25,000					25,000
7,000	28,500	11,500	15,000		62,000
2,500	119,200	1,000	10,000	132,700	
1,691,000	966,750	561,500	340,000	172,720	3,386,530
250,000		210,000		460,000	
	600,000				600,000
400,000	136,000	129,000	110,000		775,000
	17,500	19,600		35,600	1,500
1,066,000	3,000	2,500		1,071,500	
	40,020			40,020	
£25,000	£170,230	£200,400	£230,000	*£1,434,400*	£2,010,030

PRELIMINARY SUMMARY STATEMENT

Brought forward

PROPORTION ACCRUING TO OUTSIDE SHAREHOLDERS—
Ordinary and Preference Shares .. ..
Proportion of Reserves, and Profit and Loss Balances (for details see Consolidated Balance Sheet) .. ..
Less : Goodwill attributable to Outside Shareholders (including proportion of excess of cost of inter-company investments over nominal value) ..

BALANCE OF SURPLUS ASSETS NOT INCLUDING GOODWILL .. .. ..

GOODWILL (for details see Consolidated Balance Sheet)—
Subsidiary Companies (proportion only) .. ..
Excess of Cost of Shares over Nominal Value .. ..
Excess of Nominal Value over Cost of Shares .. ..

Less : Surpluses in existence at date of acquisition of Shares, viz. : Reserves and Profit and Loss Balances .. ..

HOLDING COMPANY'S AMENDED BALANCE SHEET SHOWS—
Subsidiary Companies Cost of Shares .. ..

Amounts owing from Subsidiary Companies (at Cost)—
Debenture Stock of Subsidiary A. .. ..
Advances to Subsidiary A. .. ..
Bills Receivable (Subsidiary A.) .. ..

Current Indebtedness .. ..
Undistributed Profits (for details see Consolidated Balance Sheet).
Profits (previous period) .. ..
Profits (this year) .. ..
Stock Reserve .. ..
Reserve Accounts .. ..

Less : Reserve for Losses of Subsidiary A . .. .

Less : Amount owing by Holding Company to Subsidiary D. .. ..

Add : Debenture Indebtedness of Sub-subsidiary C. .. .. ..

*As the Holding Company is financing the business of Subsidiary A, the Accounts of the Holding Company for all losses of Subsidiary A, although, of

†Represents Holding Company's proportion of goodwill arising in accounts sidiary C (£34,000) and of Holding Company (£20,000) less the discount obtained

OF ASSETS AND LIABILITIES (*continued*)

£	£	£	£	£	£
25,000	170,230	200,400	230,000	*1,434,400*	2,010,030
75,000	1,000	14,000	19,600		
11,250	1,225	56,140	93,100		
15,000	*280*				
71,250	1,945	70,140	112,700		256,035
96,250	168,285	130,260	117,300	*1,434,400*	1,753,995
•	(incorporating C.)				
135,000	†48,720				
	957,000		30,600		
432,500					
297,500	1,005,720		30,600	738,820	
90,000	*158,092*		*86,700*	*334,792*	
387,500	847,628		*56,100*		404,028
	TOTAL	.. ..	.. ..	.. ..	£2,158,023
				1,224,500	
			250,000		
			750,000		
			215,000	1,215,000	
				19,400	
			10,200		
	35.307				
	40,020			25,373	
	19,886				
				2,484,273	
526,250				*526,250*	
				1,958,023	
				10,000	
				1,948,023	
				210,000	
**£526,250*	£15,173		£10,200	£2,158,023	

Directors of the Holding Company have decided to make full provision in the course, they are not legally required to do so.

of Subsidiary B. in form of premiums paid on purchases of shares of Sub-sub- on purchase of the Holding Company's Debenture Stock (£5,000).

DETAILED CONSOLIDATED BALANCE

(Including the Balance Sheets of Subsidiaries A and B and of Sub-subsidiary
30th November

		£	£
SHARE CAPITAL—			
Authorised :			
£1,600,000 in Shares of £1 each			1,600,000
Issued :			
Ordinary Shares of £1 each		1,000,000	
5 per cent. Cumulative Preference Shares of £1 each		600,000	
		1,600,000	
Less : Ordinary Shares held by Subsidiary B. ..		80,000	
			1,520,000
5 PER CENT. FIRST MORTGAGE DEBENTURE STOCK (Redeemable 1950—secured by a first floating charge on the Holding Company's Assets) ..		720,000	
Less : Held by Subsidiary B.		25,000	
			695,000
SUBSIDIARY AND SUB-SUBSIDIARY COMPANIES (Capital held by Outside Shareholders)			
ORDINARY SHARES—			
Subsidiary A :			
50,000 Shares of £1 each ..	£50,000		
Subsidiary B :			
100 Shares of £10 each	1,000		
Subsidiary D :			
19,600 Shares of £1 each ..	19,600		
		70,600	
PREFERENCE SHARES—			
Subsidiary A :			
25,000 5 per cent. Cumulative Preference Shares of £1 each ..	25,000		
Sub-subsidiary C:			
1,400 10 per cent. Preference Shares of £10 each	14,000		
		39,000	
		109,600	
DEBENTURES OF SUBSIDIARIES AND SUB-SUBSIDIARY COMPANY—			
Subsidiary A :			
5 per cent. First Mortgage Debenture Stock	250,000		
Sub-subsidiary C :			
4½ per cent. First Mortgage Debentures	210,000		
	460,000		
Less : Held by Holding Co.	460,000	—	
			109,600
			£2,324,600

SHEET TO SHOW WORKINGS, 31st December 1934

C. as at 31st December 1934 and the Balance Sheet of Subsidiary D. as at 1933),

			£	£
Goodwill (at Cost)—				
Holding Company			150,000	
Subsidiary A.			150,000	
Add : Excess of Cost of Shares of Subsidiary Companies over their Nominal Value, viz. :—				
Subsidiary B. Cost ..£1,305,000				
Less : Dividend (see Capital Reserve per contra) ..	174,000			
	1,131,000			
Nominal	174,000			
		957,000		
Sub-subsidiary C. Cost	60,000			
Nominal	26,000			
		34,000		
Subsidiary D. Cost ..	51,000			
Nominal	20,400			
		30,600		
Excess of Cost of Shares of Holding Company over their Nominal Value, viz.				
Subsidiary B. Cost ..	100,000			
Nominal	80,000			
	20,000			
Less : Discount on Debenture Stock of Holding Co. purchased by Subsidiary B. ..	5,000			
		15,000		
			1,036,600	
			1,336,600	
Deduct: Excess of Nominal Values over Cost, viz. :—				
Subsidiary A.				
Ordinary Shares—				
Nominal	450,000			
Cost .. £150,000				
Less: Premium on Shares issued 120,000				
	30,000			
		420,000		
Preference Shares—				
Nominal ..	25,000			
Cost	12,500			
		12,500		
			432,500	
Note.—In the published account the Capital Reserve per contra would be deducted from the above total.				904,100
Forward				£904,100

Forward ..			£2,324,600
PROPORTION OF RESERVES AND PROFIT AND LOSS BALANCES OF SUBSIDIARY AND SUB-SUBSIDIARY COMPANIES DUE TO OUTSIDE SHAREHOLDERS:			
Subsidiary A.			
Preference Shareholders' Arrears of Preference Dividend		1,250	
Ordinary Shareholders—			
Capital Reserve (see below) ..	£10,000		
Profit & Loss (see contra) (Share of Loss taken up by Holding Co.)	—		
		10,000	
Subsidiary B.			
Reserve (see below)	114		
Capital Reserve (see below) ..	908		
Profit & Loss (see contra)	201		
Profit & Loss Sub-subsidiary C. (see contra)	2		
		1,225	
Sub-subsidiary C.			
Capital Reserve (see below) ..	56,000		
Profit and Loss (see contra) ..	140		
		56,140	
Subsidiary D.			
Capital Reserve (see below) ..	83,300		
Profit & Loss (see contra)	9,800		
		93,100	
			161,715
CAPITAL RESERVE—			
Representing proportion of Reserves and Profit and Loss Balances of Subsidiary and Sub-subsidiary Companies at date of their acquisition, viz.:			
Subsidiary A.			
Reserve	80,000		
Profit and Loss	20,000		
	100,000		
Less: Proportion applicable to Outside Shareholders viz.:			
$\frac{50,000}{500,000}$	10,000		
		90,000	
Forward ..		£90,000	£2,486,315

TAKINGS—CONSOLIDATED BALANCE SHEET (cont.)

Forward ..				£904,100
FREEHOLD AND LEASEHOLD LAND AND BUILDINGS (at Cost, *less* Amounts written off)—				
Holding Company			100,000	
Subsidiary A.			500,000	
Subsidiary B.			150,000	
Sub-subsidiary C.			50,000	
Subsidiary D.			—	
				800,000
PLANT, MACHINERY, FIXTURES, FITTINGS, &C. (at Cost, *less* Depreciation)—				
Holding Company			260,000	
Subsidiary A.			670,000	
Subsidiary B.			265,000	
Sub-subsidiary C.			130,000	
Subsidiary D.			140,000	
				1,465,000
STOCK IN TRADE—as Valued by Officials—				
Holding Company			25,000	
Subsidiary A.		£315,000		
Less : Inter-Company Profit, viz. : $\frac{174}{175}$ of £40,250		40,020		
			274,980	
Subsidiary B.			202,750	
Sub-subsidiary C.			150,000	
Subsidiary D.			130,000	
				782,730
SUNDRY DEBTORS—				
Holding Company		877,900		
Less : Subsidiary A. ..	£750,000			
Subsidiary B. Final Divid.	17,400			
Subsidiary B. Current A/c	2,000			
		769,400		
			108,500	
Subsidiary A.		174,000		
Less : Sub-subsidiary C.		2,500		
			171,500	
Subsidiary B.		215,500		
Less : Subsidiary A. ..	101,000			
Sub-subsidiary C. Final Dividend ..	18,200			
		119,200		
			96,300	
Sub-subsidiary C.		220,000		
Less : Subsidiary B.		1,000		
			219,000	
Subsidiary D.		55,000		
Less : Holding Company		10,000		
			45,000	
				640,300
Forward..				£4,592,130

Forward ..		£90,000	£2,486,315
Subsidiary B.			
Reserve	£30,000		
Profit & Loss (after deducting Divid. £175,000 see contra)	25,000		
Surplus of Sub-subsidiary C. (as below)	104,000		
	159,000		
Less : Proportion applicable to Outside Shareholders, viz. : $\frac{1,000}{175,000}$	908	158,092	
Sub-subsidiary C.			
Reserve	40,000		
Profit and Loss	120,000		
	160,000		
Less : Proportion applicable to Outside Preference Shareholders, viz. : $\frac{14,000}{40,000}$	56,000		
Balance applicable to Ordinary Shareholders Subsidiary B., viz. : $\frac{26,000}{40,000}$ carried above	104,000		
Subsidiary D.			
Reserve	170,000		
Less : Proportion applicable to Outside Shareholders, viz. : $\frac{19,600}{40,000}$ ..	83,300	86,700	
			334,792
Forward ..			£2,821,107

NOTES :—

(1) Any increase or decrease arising on revaluation of properties made at the time the concerns were acquired would, if brought into the Balance Sheet, be added to or deducted from the above Capital Reserves and the Assets adjusted accordingly.

(2) In the published accounts the total of Capital Reserve would be deducted from Goodwill per contra.

NOTE : As the Holding Company is financing Subsidiary A. it decides to decided properly regard losses to the amount of the outside ordinary share Holding Company. (See page 132.)

TAKINGS—CONSOLIDATED BALANCE SHEET (cont.)

Forward ..				£4,592,130
BILLS RECEIVABLE—				
Holding Company			215,000	
Subsidiary A.			25,000	
			240,000	
Less : Subsidiary A. Bills Payable			215,000	
				25,000
INVESTMENTS AT COST—				
Holding Company		£1,944,500		
Subsidiary B.		180,000		
			2,124,500	
Less : Subsidiary Cos. &c. Total		1,804,500		
Sub. B.'s Inter-Co. Holdings		180,000		
			1,984,500	
				140,000
CASH AT BANK AND IN HAND—				
Holding Company			46,000	
Subsidiary A.			7,000	
Subsidiary B.			28,500	
Sub-subsidiary C.			11,500	
Subsidiary D.			15,000	
				108,000
PROFIT AND LOSS ACCOUNT BALANCES—				
Holding Company—Profit			*479,000*	
Subsidiary A.—Loss		505,000		
Add : Balance at date of purchase transferred to Capital Reserve		20,000		
		525,000		
Arrears of Cumulative Preference Dividend due to Outside Pref. Shareholders				
$\frac{25,000}{50,000} \times 2,500$		1,250		
			526,250	
Subsidiary B.—Profit		*77,750*		
Less : Balance at date of purchase transferred to Capital Reserve	25,000			
Final Dividend (since paid)	17,500			
		42,500		
		35,250		
Forward		*£35,250*	£47,250	£4,865,130

take up the whole of the losses of that subsidiary although it could if it so holders' capital and their proportion of the reserve as not falling upon the

Forward ..					£2,821,107
LOANS FROM BANKERS—					
Subsidiary B.					600,000
SUNDRY TRADE CREDITORS AND PROVISIONS FOR ACCRUING EXPENSES AND TAXATION—					
Holding Company			£319,400		
Less : To Subsidiary D.			10,000		
				309,400	
Subsidiary A.			1,141,000		
Less : To Holding Co.		£750,000			
To Subsidiary B.		101,000			
			851,000		
				290,000	
Subsidiary B.		139,000			
Less : To Sub-subsidiary C.	£1,000				
To Holding Co.	2,000				
		3,000			
			136,000		
Final Dividend		17,500			
Less : Received by Holding Co.		17,400			
			100		
				136,100	
Sub-subsidiary C.		131,500			
Less : To Subsidiary A.		2,500			
			129,000		
Final Dividend		19,600			
Less : Received by Subsidiary B.		18,200			
			1,400		
				130,400	
Subsidiary D.				110,000	
					975,900
BILLS PAYABLE—					
Subsidiary A.				325,000	
Less : Held by Holding Co.				215,000	
					110,000
RESERVES—					
Subsidiary A.			80,000		
Less : Balance of Reserve when Interest in Company was purchased transferred to Capital Reserve			80,000	—	
Forward					£4,507,007

TAKINGS—CONSOLIDATED BALANCE SHEET (cont.)

Forward ..		*£35,250*	£47,250	£4,865,130
Less : Proportion applicable to Outside Shareholders, viz. :— $\frac{1}{175}$		201		
		35,049		
Add : Sub-subsidiary C. as below		*258*	*35,307*	
Inter Company Profit on Stocks on Hand in Subsidiary A. now written back, viz. :— $\frac{174}{175} \times £40,250$			40,020	
Sub-subsidiary C.—Profit		*140,000*		
Less : Balance at date of purchase transferred to Capital Res.	£120,000			
Final Dividends (since paid)	19,600	139,600		
		400		
Less : Proportion applicable to Preference Shareholders, viz. :— $\frac{14}{40}$		140		
		260		
Less : Proportion applicable to Outside Shareholders, viz. :— $\frac{1}{175}$		2		
		258		
Subsidiary D.—Profit		*20,000*		
Less : Proportion applicable to Outside Shareholders, viz. :— $\frac{196}{400}$		9,800	*10,200*	
			41,763	
Deduct : Reserves Subsidiary B. (per contra)			*19,886*	21,877
Forward				£4,887,007

Forward ..			£4,507,007
Subsidiary B.	£50,000		
Less : Balance of Reserve when Interest in Company was purchased transferred to Capital Reserve ..	30,000		
	20,000		
Less : Proportion applicable to Outside Shareholders, viz. :—			
$\frac{1}{175}$	114	19,886	
Sub-subsidiary C.	40,000		
Less : Balance of Reserve when Interest in Company was purchased transferred to Capital Reserve ..	40,000	—	
Subsidiary D.	170,000		
Less : Balance of Reserve when Interest in Company was purchased transferred to Capital Reserve ..	170,000	—	
Transferred to Profit and Loss Account (per contra)		£19,886	
Holding Company		500,000	
Less : Premium on Shares deducted from Goodwill (per contra)		120,000	380,000
CONTINGENT LIABILITIES—			
Subsidiary A.			
Bills under Discount		£312,000	
Forward Contracts		£150,000	
Holding Company :			
Bills under Discount	£110,000	Not required as now shown under liabilities above	
Guarantee of Debentures in Sub. A.	250,000		
Guarantee of Loan in Sub. B. ..	600,000		
Guarantee of Preference Capital and Dividends of Sub-subsidiary : £14,000 at 10 per cent. per annum			

TAKINGS—CONSOLIDATED BALANCE SHEET (cont.)

Forward ..					£4,887,007
Or thus :—					
BALANCE OF PROFIT AT COMMENCEMENT OF YEAR :—					
Holding Company ..			£2,500		
Subsidiary D. ..		£20,000			
Less : Proportion applicable to Outside Shareholders, viz. : 196/400		9,800	10,200		
				12,700	
Losses for year, viz. :					
Holding Company Profit		476,500			
Less : Dividends of Subsidiary Cos. ..		669,900			
			193,400		
Subsidiary A.: Loss ..	£525,000				
Pref. Divid. due to Outside Shareholders	1,250				
			526,250		
			Loss	719,650	
Profits for year, viz. :					
Subsidiary B.		729,000			
Less : Proportion accruing to Outside Shareholders 1/175th ..	4,165				
Profit on Stocks held by Sub. A. written back	40,020				
		44,185	684,815		
Sub-sub. C. ..		20,000			
Less : Final Dividends	19,600				
Proport'n accruing to Pref. Shareholders	140				
	19,740				
Proportion accruing to Outside Shareholders of Sub. B. viz. : 1/175th ..	2				
		19,742			
			258		
				685,073	
Net Loss for Year ..				34,577	
Balance as above				£21,877	
					£4,887,007

HOLDING COMPANY AND ITS

CONSOLIDATED PROFIT AND LOSS ACCOUNT

			£	£
To DEPRECIATION—				
Holding Company			15,000	
Subsidiary A.			90,000	
Subsidiary B.			32,500	
Sub-subsidiary C.			17,500	
				155,000
,, DIRECTORS' FEES				
Holding Company			2,850	
Subsidiary A.			1,000	
Subsidiary B.			300	
Sub-subsidiary C.			200	
				4,350
,, INCOME TAX—				
Holding Company			5,000	
Subsidiary B.			193,000	
Sub-subsidiary C.			7,000	
				205,000
,, DEBENTURE INTEREST—				
On Holding Company's Debenture Stock held by Outside Interests				34,750
,, INTER-COMPANY INTEREST CHARGES—				
Debenture Interest :				
Holding Company		£1,250		
Subsidiary A.		12,500		
Sub-Subsidiary C		9,450		
			23,200	
Loan Interest payable by Subsidiary A :				
Holding Company		44,650		
Subsidiary B.		10,000		
			54,650	
			77,850	
Less.—Credits—				
Holding Company :				
Subsidiary A.		57,150		
Sub-subsidiary C.		9,450		
		66,600		
Subsidiary B :				
Holding Company Debentures ..	£1,250			
Subsidiary A. ..	10,000			
		11,250		
			77,850	
,, BALANCE CARRIED DOWN				2,380
				£401,480

SUBSIDIARY UNDERTAKINGS

FOR THE YEAR ENDED 31ST DECEMBER, 1934

	£	£
By Profits on Trading before Charging Depreciation and Directors' Fees—		
Subsidiary B	925,350	
Sub-subsidiary C	54,150	
		979,500
Less.—Losses on Trading:		
Holding Company	171,150	
Subsidiary A	366,850	
Inter-Company Profit on Stocks	40,020	
		578,020
		401,480
		£401,480

HOLDING COMPANY AND ITS

CONSOLIDATED PROFIT AND

		£	£
To Proportion of Profits of Subsidiary and Sub-Subsidiary Companies Applicable to Outside Shareholders—			
Subsidiary B :			
$\frac{1}{175}$th of £729,000	£4,165		
$\frac{1}{175}$th of £260, being Subsidiary B's proportion of undistributed profits of Sub-subsidiary C	2		
		4,167	
Sub-subsidiary C—			
Preference Dividend ..	1,400		
Premium on Preference Shares under winding up provisions	140		
		1,540	
		5,707	
Add.—Provision for Arrears of Preference Dividend in Subsidiary A		1,250	
			6,957
			£6,957
To Net Loss for Year Brought down ..			4,577
,, Preference Dividend			30,000
			£34,577

SUBSIDIARY UNDERTAKINGS

LOSS ACCOUNT (*continued*)

	£	£
By Balance Brought Down		2,380
,, Net Loss for Year Carried Down		4,577
		£6,957
By Balance Brought Forward from Last Year—		
Holding Company	2,500	
Subsidiary D	20,000	
	22,500	
Less.—Proportion of Subsidiary D balance applicable to Outside Shareholders	9,800	
		12,700
,, Balance as per Balance Sheet		21,877
		£34,577

APPENDIX II

Examples of Published Accounts

The following examples of published Accounts submitted to members of companies are printed here (without any comment) so that readers may see for themselves some forms actually adopted in practice.

BALANCE SHEET

1933 £ s d	1933 £ s d	*Liabilities*	£ s d	£ s d
		CAPITAL ACCOUNT— *Authorised:*		
	750,000 0 0	750,000 6½% Cumulative Preference Shares of £1 each ..	750,000 0 0	
	1,500,000 0 0	1,500,000 Ordinary Shares of £1 each	1,500,000 0 0	
	2,250,000 0 0		2,250,000 0 0	
		Issued:		
	500,000 0 0	698,400 6½% Cumulative Preference Shares of £1 each, fully paid ..	698,400 0 0	
	1,250,000 0 0	1,282,000 Ordinary Shares of £1 each, fully paid ..	1,282,000 0 0	
1,750,000 0 0				1,980,400 0 0
409,000 0 0		MORTGAGES—Including Interest Accrued to date		423,200 10 11
		CREDITORS—		
	2,744 8 3	Amounts due to Subsidiary Companies	3,419 17 8	
	145,098 15 8	Trade Creditors and Credit Balances	151,429 12 11	
	116,080 11 6	Provision for Income Tax ..	139,785 17 2	
263,923 15 5				294,635 7 9
540 12 11		UNCLAIMED DIVIDENDS ..		534 15 7
		STAFF PENSION FUND—		
37,000 0 0		Specifically invested as per contra		37,000 0 0
50,000 0 0		GENERAL RESERVE	80,000 0 0	
		Deduct amount appropriated in connection with amalgamation with Associated Company	29,836 17 11	
				50,163 2 1
		PROFIT AND LOSS ACCOUNT— Balance as per last Balance Sheet	118,054 18 3	
		Deduct—Appropriations in 1933:— For General Reserve .. £30,000 For Ordinary Dividend .. 46,875	76,875 0 0	
	40,393 19 3	Leaving Balance brought forward from 1933 ..	41,179 18 3	
	102,035 19 0	*Add* Profit for year ended 29th September, 1934 ..	111,514 2 8	
	142,429 18 3		152,694 0 11	
	24,375 0 0	*Deduct* Preference Dividend *less* tax	24,781 5 0	
118,054 18 3				127,912 15 11
£2,628,519 6 7				£2,913,846 12 3

TO THE MEMBERS OF AERATED BREAD COMPANY, LIMITED—

AUDITORS'

In accordance with Section 134 of the Companies Act, 1929, we beg to report that we have audited
We have obtained all the information and explanations we have required. In our opinion such Balance
according to the best of our information and the explanations given us, and as shown by the Books of the

Palmerston House, Old Broad Street, E.C.2.
29th November, 1934.

AT 29TH SEPTEMBER 1934

Assets

1933 £ s d	1933 £ s d		£ s d	£ s d
		FREEHOLD AND LEASEHOLD PROPERTY—		
	1,062,555 10 9	Valuation, 1928, plus Additions at Cost, *less* Sales and Depreciation as per last Balance Sheet ..	1,581,292 18 6	
	20,354 17 4	*Less* Depreciation ..	21,460 7 8	
	1,042,200 13 5		1,559,832 10 10	
	539,092 5 1	*Add* Additions at Cost, *less* Sales	125,235 10 4	
1,581,292 18 6				1,685,068 1 2
		PLANT & MACHINERY, FIXTURES, FITTINGS, DEPOT EQUIPMENT & MOTOR VANS—		
	492,574 12 8	Valuation, 1928, plus Additions at Cost, *less* Sales and Depreciation as per last Balance Sheet ..	558,285 0 9	
	37,158 15 7	*Less* Depreciation ..	39,392 10 4	
	455,415 17 1		518,892 10 5	
	102,869 3 8	*Add* Additions at Cost, *less* Sales	83,371 18 2	
558,285 0 9				602,264 8 7
		STOCKS AND STORES ON HAND—		
61,461 3 0		As certified by the Officers of the Company		69,298 14 11
		DEBTORS AND PREPAYMENTS—		
	9,975 2 8	Advances to and amounts due from Subsidiary Companies	21,599 18 9	
	23,551 4 8	Trade and other Debtors ..	27,337 18 1	
33,526 7 4				48,937 16 10
		INVESTMENTS—		
		In Shares of Subsidiary Companies at Cost	194,182 19 0	
		In Marketable Securities at cost	124,065 14 7	
254,577 2 7		(These include Shares in certain leading Insurance Companies on which there is a contingent liability of £8,160 in respect of uncalled Capital).		318,248 13 7
		CASH—		
	96,152 12 10	At Bank	145,417 10 6	
	6,224 1 7	In Hand	7,611 6 8	
102,376 14 5				153,028 17 2
		STAFF PENSION FUND—		
37,000 0 0		Investments at or under Cost		37,000 0 0
		GREENWOOD A. DAVIDSON } Directors.		
£2,628,519 6 7				£2,913,846 12 3

REPORT

the Balance Sheet of Aerated Bread Company, Limited, as at 29th September, 1934, as above set forth. Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs Company.

GIBSON HARRIS, PRINCE & CO.,
Chartered Accountants.

AERATED BREAD

Dr. PROFIT AND LOSS ACCOUNT FOR THE

1933 £	s	d		£	s	d
3,333	*6*	*8*	To Directors' Fees	2,714	19	7
46,000	*0*	*0*	,, Provision for Income Tax ..	47,000	0	0
57,513	*12*	*11*	,, Depreciation..	60,852	18	0
5,000	*15*	*0*	,, Cost of Increase in Authorised Capital	—	—	—
102,035	*19*	*0*	,, Balance carried to Balance Sheet ..	111,514	2	8
£213,883	*13*	*7*		£222,082	0	3

(*£2,289 6s. 3d.*) *Note.*—The amount paid to, or due to, Directors of Aerated Bread Company, Limited, by way of Directors' Fees from Subsidiary Companies, for the year ended 29th September, 1934 is £1,357 10s. 0d.

STATEMENT RE SUB

In the above Accounts, profits of Subsidiary Companies have been included provision has been made for a loss sustained during the year by a Subsidiary taken into account in the purchase consideration payable under the Amalga

COMPANY LIMITED (cont.)

YEAR ENDED 29TH SEPTEMBER 1934 *Cr.*

1933 £	s	d		£	s	d
			By BALANCE from Trading Account, after charging all expenses and			
208,132	*14*	*2*	contingencies	213,338	2	2
			INTEREST AND DIVIDENDS RE-			
5,461	*5*	*11*	CEIVABLE	8,485	1	7
289	*13*	*6*	,, TRANSFER FEES	258	16	6
£213,883	*13*	*7*		£222,082	0	3

SIDIARY COMPANIES

only to the extent of the dividends declared and received or receivable ; no Company in process of being amalgamated with this Company as all losses were mation Agreement.

GREENWOOD }
A. DAVIDSON } Directors.

STATEMENT OF THE COMBINED

OF

SUBSIDIARY

OF

AERATED BREAD

AS AT 29TH

as shown by the Audited Balance Sheets of those Companies after eliminating paid or declared

1933 £	s	d	*Liabilities*				£	s	d
158,500	*0*	*0*	Mortgages and Loans				157,000	0	0
57,002	*16*	*8*	Bank Overdraft				60,483	2	4
97,481	*7*	*2*	Sundry Creditors, including provision for Income Tax and Dividends declared				109,422	1	1
449,012	*5*	*9*	Balance				420,425	16	6
			Divisible as follows :—						
			Proportion attributable to Shares not held by Aerated Bread Company Limited ..	£51,392	8	1			
			Proportion attributable to Aerated Bread Company Limited as Reserve in respect of Subsidiary Company in process of amalgamation with Aerated Bread Company Limited	100,527	3	5			
			Proportion attributable to Shares held by Aerated Bread Company Limited.	268,506	5	0			
				£420,425	16	6			
£761,996	*9*	*7*					£747,330	19	11

To the Members of Aerated Bread Company, Limited.

We have examined the above Statement combining the Assets and Liabilities the Balance Sheets of those Companies as at 29th September, 1934, which have one exception we are either joint or sole Auditors. In our opinion the above Companies regarded as a single undertaking as disclosed by the Audited all intangible Assets, and after making provision for all dividends, paid or

Palmerston House,
Old Broad Street,
London, E.C.2.

29th November, 1934.

ASSETS AND LIABILITIES
THE
COMPANIES

COMPANY, LIMITED

SEPTEMBER 1934

Goodwill ánd all intangible Assets and after making provision for all Dividends for the year

1933 £	*s*	*d*	*Assets.*	£	s	d
478,298	*19*	*6*	Freehold and Leasehold Property ..	460,423	1	1
208,544	*15*	*1*	Plant, Equipment, Furniture and Fittings	200,690	19	7
42,905	*15*	*5*	Stock	40,024	0	5
941	*12*	*2*	Investments at Cost	901	2	2
3,920	*0*	*0*	Sinking Fund Policy Premium (surrender value £4,499 5s. 0d.)	4,480	0	0
19,718	*19*	*2*	Sundry Debtors	29,301	0	11
2,958	*11*	*11*	Cash at Bank	4,942	15	11
4,707	*16*	*4*	Cash in Hand	6,567	19	10
£761,996	*9*	*7*		£747,330	19	11

of the Subsidiary Companies of Aerated Bread Company, Limited, as shown by been audited by the Auditors of the Subsidiary Companies to all of which with Statement has been correctly prepared to show the position of the Subsidiary Balance Sheets of those Companies after eliminating therefrom Goodwill and declared, for the year.

GIBSON HARRIS, PRINCE & CO.
Chartered Accountants
Auditors of Aerated Bread Company, Ltd

CONSOLIDATED BALANCE SHEET OF THE COMMERCIAL AND ITS SUBSIDIARY COMPANIES

Liabilities	£ s d	£ s d
CAPITAL—		
Authorised : £3,750,000		
Subscribed : Stock fully paid ..		3,540,000 0 0
General Reserve Fund	3,962,052 9 11	
Less Written off Cost of Businesses acquired Account per contra ..	100,000 0 0	
		3,862,052 9 11
Guarantee and Pension Fund ..	562,090 10 4	
Profit and Loss Account	584,063 6 4	
Stockholders' proportion of Life Profits Account	106,348 4 0	
Stockholders' proportion of Union Life Fund Profits Account	15,000 0 0	
Hand-in-Hand Fund Profits Account	110,000 0 0	
Leasehold Redemption Fund Profits Account	9,600 0 0	
		1,387,102 0 8
Fire Insurance Fund	6,875,753 2 4	
Marine Insurance Fund	1,160,455 12 3	
Accident Insurance Fund	5,450,777 14 6	
		13,486,986 9 1
Leasehold Redemption and Sinking Fund Account		894,978 16 4
"Union" 4% Debenture Stock, due 1st January, 1947	467,431 0 0	
"West of Scotland" 5% Debenture Stock, due 1st January, 1954* ..	429,280 0 0	
"British General" 4% Debenture Stock, due 1st April, 1957*	573,173 0 0	
*Or redeemable earlier at the option of the Company.		1,469,884 0 0
Claims admitted or intimated, but not paid, less amounts recoverable under reinsurances :—		
Fire	607,663 18 8	
Marine	173,208 8 4	
Accident	3,293,999 4 1	
		4,074,871 11 1
Amounts due to Agents and others and Exchange Reserve	988,836 13 5	
Amounts due to other Companies for Reinsurances and Losses	664,553 10 9	
Amount due to Union Life Fund ..	30,975 0 4	
Bills Payable	4,010 0 0	
Unclaimed Dividends and Interest including Interest accrued on Debenture Stocks	12,945 1 8	
		1,701,320 6 2
	Forward .. £	30,417,195 13 3

UNION ASSURANCE COMPANY LIMITED

AT 31st December 1934.

Assets	£ s d	£ s d
Mortgages on Property within the United Kingdom ..	264,434 10 4	
Do. Property out of the United Kingdom ..	345,920 4 9	
Do. Rates raised under Acts of Parliament ..	17,824 3 7	
Loans upon Personal Security ..	3,235 6 11	
		631,414 5 7
Investments—		
British Government Securities ..	4,421,730 19 2	
Municipal and County Securities—United Kingdom	946,696 19 2	
Indian and Colonial Government Securities	1,257,301 16 5	
Do. Provincial Securities	72,648 11 4	
Do. Municipal Securities	425,260 2 1	
Foreign Government Securities ..	3,035,848 18 3	
Do. Provincial Securities ..	86,312 19 7	
Do. Municipal Securities ..	810,590 11 11	
Railway and other Debentures and Debenture Stocks—Home and Foreign	7,316,015 3 7	
Railway and other Preference and Guaranteed Stocks and Shares	1,303,048 3 7	
Railway and other Ordinary Stocks and Shares	598,872 16 9	
		20,274,327 1 10
Shares in partially-owned Subsidiary Companies at Cost, less amounts written off		164,133 12 5
Freehold Premises at Home and Abroad partly occupied as Offices of the Companies and partly producing revenue	2,243,463 5 8	
Leasehold Premises do. do.	406,404 6 8	
Freehold Ground Rents, Feu Duties and Ground Annuals	65,421 15 4	
		2,715,289 7 8
Cost of Businesses acquired less amounts previously written off ..	385,778 8 6	
Less further amount written off to General Reserve Fund per contra	100,000 0 0	
		285,778 8 6
Branch, Agency and other Balances ..	2,531,856 16 7	
Amounts due by other Companies for Reinsurances and Losses	555,599 16 4	
Forward ..	£3,087,456 12 11	£24,070,942 16 0

COMMERCIAL UNION ASSURANCE

CONSOLIDATED BALANCE SHEET AS

	£ s d	£ s d
Forward		30,417,195 13 3
Life Department, as per separate Balance Sheet, p. 11.*		23,034,633 4 11
West of England Life Fund do.p. 13.*		167,025 5 0
Hand-in-Hand Fund .. do.p. 15.*		1,449,956 18 2
Union Life Fund .. do.p. 17.*		1,568,906 12 1
Liverpool Victoria Life Fund do.p. 19.*		127,864 8 6
Edinburgh Life Fund .. do.p. 21.*		3,455,446 11 11
British General Life Fund do.p. 23.*		1,387,621 1 0
	£	61,608,649 14 10

NOTES.—In addition to the above there are liabilities in connection with the fusion of the Hand-in-Hand Insurance Society and for amounts uncalled on shares in Subsidiary Insurance Companies.

Various securities are held in connection with Trust business and otherwise not set out in this Balance Sheet

(*Not reproduced in this book).

We certify that—

The Stock Exchange Securities comprised in the Life Funds are included at or below the figures to which they were adjusted at the last periodical valuations and subsequent purchases at or below cost. The values shown in each of the Balance Sheets are in the aggregate below the aggregate market values at 31st December 1934.

The other Stock Exchange Securities, amounting to £20,274,327 1s. 10d., are included at cost or under, which is below the aggregate market value at the 31st December 1934. In our belief the Assets set forth in the Balance Sheet are in the aggregate fully of the value stated therein.

The fixed Assets are included at cost or under.

Part of the Assets has been deposited under Local Laws in various places out of the United Kingdom as security for holders of Policies there issued.

No part of any fund has been applied directly or indirectly for any purpose other than the class of business to which it is applicable.

JAMES LEIGH-WOOD, } *Directors.*
C. D. SELIGMAN,
G. MUNRO KERR, *Secretary.*

COOPER BROTHERS & CO.,
Chartered Accountants.

COMPANY LIMITED AND SUBSIDIARIES—(cont.)

AT 31ST DECEMBER 1934 (*continued*)

				£	s	d	£	s	d		
Forward				3,087,456	12	11	24,070,942	16	0		
Amount due by Life Department ..				2,069	4	9					
Do. West of England Life Fund				119	4	10					
Do. Hand-in-Hand Fund				165,000	0	0					
Outstanding Premiums—											
Fire	£15,369	8	4								
Marine ..	104,762	7	10								
Accident ..	365	14	11								
				120,497	11	1					
Outstanding Interest, Dividends and Rents due, but not received ..				19,665	11	5					
Bills Receivable				8,585	12	1					
CASH—On Deposit ..	£952,696	3	9								
In hand and on Current A/c	1,990,162	16	5								
				2,942,859	0	2					
							6,346,252	17	3		
							30,417,195	13	3		
Life Department, as per separate Balance Sheet, p. 11.*							23,034,633	4	11		
West of England Life Fund do. p. 13.*							167,025	5	0		
Hand-in-Hand Fund do. p. 15.*							1,449,956	18	2		
Union Life Fund do. p. 17.*							1,568,906	12	1		
Liverpool Victoria Life Fund do. p. 19.*							127,864	8	6		
Edinburgh Life Fund do. p. 21.*							3,455,446	11	11		
British General Life Fund do. p. 23.*							1,387,621	1	0		
						£	61,608,649	14	10		

We certify that the above Consolidated Balance Sheet has been prepared from the Balance Sheet of the Commercial Union Assurance Company Limited, upon which we have reported as Auditors and from the audited Balance Sheets of Insurance Companies owned by the Company which have been submitted to us.

COOPER BROTHERS & CO.,
Chartered Accountants.

7th May 1935.

COMMERCIAL UNION ASSURANCE

STATUTORY BALANCE SHEET OF THE COMMERCIAL UNION

Liabilities	£	s	d	£	s	d
CAPITAL—						
Authorised : £3,750,000						
Subscribed : Stock fully paid ..				3,540,000	0	0
General Reserve Fund	1,831,905	1	0			
Less Written off Shares in Subsidiary Companies per contra ..	100,000	0	0			
				1,731,905	1	0
Guarantee and Pension Fund	560,090	10	4			
Profit and Loss Account	584,063	6	4			
Stockholders' proportion of Life Profits Account	106,348	4	0			
Stockholders' proportion of Union Life Fund Profits Account	15,000	0	0			
Hand-in-Hand Fund Profits Account ..	110,000	0	0			
Leasehold Redemption Fund Profits Account	9,600	0	0			
				1,385,102	0	8
Fire Insurance Fund	2,826,979	13	6			
Marine Insurance Fund	984,333	19	2			
Accident Insurance Fund	1,095,095	5	11			
				4,906,408	18	7
Leasehold Redemption and Sinking Fund Account				809,453	2	6
"Union" 4% Debenture Stock, due 1st January, 1947	467,431	0	0			
"West of Scotland" 5% Debenture Stock, due 1st January, 1954*	429,280	0	0			
"British General" 4% Debenture Stock, due 1st April, 1957*	573,173	0	0			
*Or redeemable earlier at the option of the Company.				1,469,884	0	0
Claims admitted or intimated, but not paid, less amounts recoverable under reinsurances—						
Fire	246,717	8	9			
Marine	129,471	16	2			
Accident	468,015	1	1			
				844,204	6	0
Amounts due to Agents and others and Exchange Reserve	498,572	2	4			
Amounts owing to Subsidiary Cos. ..	17,246	17	6			
Amounts due to other Companies for Reinsurances and Losses	380,958	11	8			
Amount due to Union Life Fund ..	30,975	0	4			
Unclaimed Dividends and Interest including Interest accrued on Debenture Stocks	12,945	1	8			
				940,697	13	6
	Forward ..		£	15,627,655	2	3

COMPANY LIMITED—(cont.)

ASSURANCE COMPANY LIMITED AT 31ST DECEMBER 1934

Assets		£ s d	£ s d
Mortgages on Property within the United Kingdom ..		99,474 3 8	
Do. Property out of the United Kingdom ..		157,046 16 10	
Do. Rates raised under Acts of Parliament.. ..		17,824 3 7	
Loans upon Personal Security		1,785 6 11	
			276,130 11 0
INVESTMENTS—			
British Government Securities ..		1,167,556 6 7	
Municipal and County Securities— United Kingdom		347,773 16 6	
Indian and Colonial Government Securities ..		299,487 14 2	
Do. Municipal Securities ..		120,576 6 11	
Foreign Government Securities ..		813,536 8 8	
Do. Municipal Securities ..		245,220 16 2	
Railway and other Debentures and Debenture Stocks—Home and Foreign		2,340,047 6 8	
Railway and other Preference and Guaranteed Stocks and Shares		588,706 5 1	
Railway and other Ordinary Stocks and Shares		185,797 17 2	
			6,108,702 17 11
Shares in Subsidiary Companies at Cost, less amounts previously written off		4,480,097 16 0	
Less further amount written off to General Reserve Fund, per contra		100,000 0 0	
			4,380,097 16 0
Freehold Premises at Home and Abroad partly occupied as Offices of the Company and partly producing revenue		1,360,804 18 6	
Leasehold Premises do. do.		94,044 0 6	
Freehold Ground Rents, Feu Duties and Ground Annuals		14,032 8 6	
			1,468,881 7 6
Branch, Agency and other Balances ..		827,558 4 5	
Amounts due by other Companies for Reinsurances and Losses		172,196 2 9	
Amount due by Life Department ..		2,069 4 9	
Do. West of England Life Fund		119 4 10	
Do. Hand-in-Hand Fund		165,000 0 0	
Outstanding Premiums—			
Fire	14,395 16 11		
Marine	104,762 7 10		
Accident ..	198 14 3		
		119,356 19 0	
Forward.. £		1,286,299 15 9	12,233,812 12 5

STATUTORY BALANCE SHEET

	£ s d	£	s	d
Forward		15,627,655	2	3
Life Department, as per separate Balance Sheet, p. 11*		23,034,633	4	11
West of England Life Fund do. p. 13*		167,025	5	0
Hand-in-Hand Fund .. do. p. 15*		1,449,956	18	2
Union Life Fund.. .. do. p. 17*		1,568,906	12	1
Liverpool Victoria Life Fund do. p. 19*		127,864	8	6
Edinburgh Life Fund .. do. p. 21*		3,455,446	11	11
NOTES.—In addition to the above there are liabilities in connection with the fusion of the Hand-in-Hand Insurance Society, and for contracts of Subsidiary Insurance Companies and for amounts uncalled on Shares in those Companies.				
Various securities are held in connection with Trust business and otherwise not set out in this Balance Sheet.				
	£	45,431,488	2	10

(* Not reproduced in this book.)

AS AT 31ST DECEMBER 1934 *(continued)*

	£ s d	£ s d
Forward	1,286,299 15 9	12,233,812 12 5
Outstanding Interest, Dividends and Rents due, but not received	14,468 14 11	
Amounts owing by Subsidiary Companies (including Dividends for the year 1934)	648,573 9 5	
Bills Receivable	3,974 16 5	
CASH—On Deposit £559,008 13 4		
In hand and on Current A/c 881,517 0 0		
	1,440,525 13 4	
		3,393,842 9 10
		15,627,655 2 3
Life Department, as per separate Balance Sheet, p. 11*		23,034,633 4 11
West of England Life Fund do. p. 13*		167,025 5 0
Hand-in-Hand Fund do. p. 15*		1,449,956 18 2
Union Life Fund.. .. do. p. 17*		1,568,906 12 1
Liverpool Victoria Life Fund do. p. 19*		127,864 8 6
Edinburgh Life Fund .. do. p. 21*		3,455,446 11 11
		£45,431,488 2 10

We certify that—

The Stock Exchange Securities comprised in the Life Funds are included at or below the figures to which they were adjusted at the last periodical valuations and subsequent purchases at or below cost. The values shown in each of the Balance Sheets are in the aggregate below the aggregate market values at 31st December 1934.

The other Stock Exchange Securities, amounting to £6,108,702 17s. 11d. are included at cost or under, which is below the aggregate market value at the 31st December 1934. In our belief the Assets set forth in the Balance Sheet are in the aggregate fully of the value stated therein.

The fixed Assets are included at cost or under.

Part of the Assets has been deposited under Local Laws in various places out of the United Kingdom as security for holders of Policies there issued.

No part of any fund has been applied directly or indirectly for any purpose other than the class of business to which it is applicable.

The Revenue Accounts and Profit and Loss Account include the transactions for the year of the wholly-owned Subsidiary Companies, and the Dividends receivable from the partially-owned Subsidiary Companies. All the Subsidiary Companies made a Profit. The Directors' remuneration amounted to £20,074 10s. 6d. inclusive of fees paid by Subsidiary Companies.

JAMES LEIGH-WOOD, } *Directors.*
C. D. SELIGMAN, }

G. MUNRO KERR, *Secretary.*

COOPER BROTHERS & CO., } *Auditors.*
Chartered Accountants }

7th May 1935.

FOR AUDITORS' REPORT SEE OVER.

COMMERCIAL UNION ASSURANCE

PROFIT AND

1st January to

					£	s	d
Balance brought forward					587,455	12	1
Interest, Dividends and Rents	£1,032,218	13	9				
Less Income Tax	211,388	1	1				
					820,830	12	8
Transferred from Fire Account					475,000	0	0
Transferred from Marine Account					150,000	0	0
Transferred from Accident Account					100,000	0	0
One-fifth of Stockholders' proportion of Life Profits					35,449	8	0
do. Union Life Fund Profits					5,000	0	0
Allocation from Hand-in-Hand Fund Profits					45,000	0	0
One-third of Stockholders' proportion of British General Life Fund Profits					2,491	9	4
One-fifth of Leasehold Redemption Fund Profits					4,800	0	0
Trusteeship and other Fees					2,628	10	0
					£2,228,655	12	1

Report of the Auditors to the Members of the Commercial Union Assurance Company Limited

We have audited the Balance Sheet at 31st December 1934 with the Books at the Head Office and Returns from various Branches and Agents.

We have verified :—

(1) The Cash Balances and Securities and Deeds representing the Assets of the Company.

(2) The Cash Balances and Securities and Deeds representing the Assets held by the Company on behalf of the Union Life Fund and the Liverpool Victoria Life Fund respectively.

(3) The Securities and Deeds representing the sum of £149,631 2s. 9d. held by the Company on behalf of the West of England Life Fund.

Claims admitted or intimated but not paid have been certified by the Managers of the respective departments.

The figures relating to the West of England Life Fund, the Hand-in-Hand Fund, and the Edinburgh Life Fund have not been examined by us but by the Auditors of those Funds who certify the same.

We have obtained all the information and explanations we have required and in our opinion such Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs according to the best of our information and the explanations given to us and as shown by the Books of the Company.

COOPER BROTHERS & CO., *Chartered Accountants.* } *Auditors.*

7th May 1935

COMPANY LIMITED

LOSS ACCOUNT

31st December 1934.

		£ s d
Final dividend for year 1933, *less* Income Tax, paid May 1934 ..	£582,823 12 9	
Interim dividend for year 1934, less Income Tax, paid November 1934	560,500 0 0	
		1,143,323 12 9
Interest on Debenture Stocks paid and accrued *less* Income Tax		48,749 12 2
Income Tax on Profits paid and provided		162,519 0 10
Written off Freehold Premises		20,000 0 0
Transferred to Guarantee and Pension Fund		20,000 0 0
do. General Reserve Fund		250,000 0 0
Balance carried forward		584,063 6 4
		£2,228,655 12 1

Other Documents Published with the Annual Accounts Printed above

The following accounts are printed in the Directors' Report for the year 1934 but on account of considerations of space are not reproduced here :—

Departmental Balance Sheets as at 31st December 1934—

Life Department.
West of England Life Fund.
Hand-in-Hand Fund.
Union Life Fund.
Liverpool Victoria Life Fund.
Edinburgh Life Fund.
British General Life Fund.

Departmental Revenue Accounts for the year 1934—

Fire Department.
Marine Department.
Accident Department.
Leasehold Redemption and Sinking Fund.
Life Department.
West of England Life Fund.
Hand-in-Hand Fund.
Union Life Fund.
Liverpool Victoria Life Fund.
Edinburgh Life Fund.
British General Life Fund.

DUNLOP RUBBER COMPANY LIMITED

STATEMENT OF PROFITS FOR THE YEAR 1934

1933 £		£	£
2,255,973	I. THE AGGREGATE PROFITS OF THE DUNLOP RUBBER CO., LTD., for the year 1934, including its proportion of the profits *less* losses of all Subsidiary and Sub-subsidiary Companies after providing for Depreciation, etc., but before providing for guaranteed Preference Dividends of Subsidiary Companies amount to..		2,276,336
90,671	II. IN ADDITION, the Dunlop Rubber Company's proportion of various items which do not represent normal earnings attributable to the current year, amounts to		9,183
2,346,644	III. AGGREGATE TOTAL		2,285,519
	IV. FROM THE RESULTS OF SUBSIDIARY AND SUB-SUBSIDIARY COMPANIES INCLUDED ABOVE THERE HAS BEEN DEDUCTED :—		
229,440	(*a*) The Dunlop Rubber Company's proportion of British and Foreign Taxation paid by or provided in the accounts of such companies	167,895	
41,618	(*b*) The whole of the Guaranteed Preference Dividend of Dunlop Plantations Ltd., for the year to 30th November, 1934, paid by that Company	116,250	
109,687	(*c*) The whole of the Guaranteed Preference Dividend of Dunlop Cotton Mills Ltd., for the year to 31st January, 1935, paid by that Company	113,344	
13,554	(*d*) The whole of the Guaranteed Preference Dividend of Dunlop Rubber Co. (India) Ltd., for the year to 31st December, 1934, paid by that Company	13,559	
83,421	(*e*) The Dunlop Rubber Company's proportion of special appropriations and undistributed profits of the year held in reserve	47,932	
477,720			458,980
1,868,924	V. BALANCE AVAILABLE TO THE DUNLOP RUBBER CO., LTD., as per that Company's Profit and Loss Account (pages 8 & 9)* ..		1,826,539
70,882	VI. DEDUCT: (*a*) Guaranteed Preference Dividends of Subsidiary Companies borne by the Dunlop Rubber Co., Ltd.:— Balance in respect of Dunlop Plantations, Ltd. ..	—	
285,176	(*b*) Interest on Debentures and Loans..	138,852	
356,058			138,852
1,512,866	VII. LEAVING THE NET PROFIT AS PER THE DUNLOP RUBBER COMPANY'S PROFIT AND LOSS ACCOUNT (pages 8 and 9)* ..		1,687,687
442,208	VIII. Add Balance brought forward from last year		578,415
£1,955,074	IX. TOTAL AVAILABLE		£2,266,102

NOTE: The 1934 profits made in Germany are not included in the above Statement.

*Pages 220 and 221 in this book.

DUNLOP RUBBER

BALANCE SHEET AS AT

1933 £		Authorised Shares and Stock £	Issued Shares and Stock £	
	I. SHARE CAPITAL :—			
	1,000,000 6½% "A" Cum. Pref. Shares of £1 each	1,000,000	1,000,000	
	1,000,000 7% "B" Cum. Pref. Shares of £1 each	1,000 000	1,000,000	
	3,000,000 10% "C" Cum. Pref. Shares of 16s. each	2,400,000	2,400,000	
	£15,600,000 Ordinary Stock	15,600,000	7,851,045	
12,251,045		£20,000,000		12,251,045
	II. SURPLUS AND RESERVES :—			
1,124,843	(a) General Reserve (including balance of Share Premium Account)		1,124,843	
2,000,000	(b) Special Reserve—against investments in and advances to Subsidiary Companies		2,000,000	
	(c) Reserves for Contingencies	545,443		
	Add Transfer from Profit and Loss Account (page 8)*	100,000		
643,260			645,443	
—	(d) Dividend Equalisation Reserve ..		250,000	
369	(e) Reserve for Inter-Company Profits in Inventory Valuations of Subsidiary Companies		46,998	
578,415	(f) Surplus, i.e., Profit and Loss Account Balance after providing for proposed dividends as per Profit and Loss Account (pages 8 & 9)*		588,652	
4,346,887				4,655,936
16,597,932				16,906,981
	III. DEBENTURES secured upon assets of the Company :—			
	(a) First Mortgage 5½% Debenture Stock	£5,000,000		
	Less Redeemed and cancelled to date ..	4,830,773		
284,750			169,227	
	(b) 4% Debenture Stock (Authorised £3,500,000)	2,620,200		
	Less Redeemed and cancelled to date ..	60		
2,056,221			2,620,140	
2,340,971				2,789,367
	IV. AMOUNTS OWING TO SUBSIDIARY AND ASSOCIATED COMPANIES :— (*Less* Dividends since declared)			
	(a) Subsidiary Companies		1,645,844	
	Less Company's own Debenture Stock included therein		11,028	
1,462,515			1,634,816	
51,144	(b) Associated Companies		50,936	
1,513,659				1,685,752
	Forward			£21,382,100

* Pages 220 and 221 in this book.

COMPANY LIMITED

31st December, 1934

1933 £		£	
	I. Fixed Assets at Cost, *less* Realisations and Depreciation :—		
1,884,801	(*a*) Freehold Land and Buildings	1,847,361	
401,043	(*b*) Leasehold Premises	385,543	
1,164,050	(*c*) Plant, Machinery, Tools and Moulds	1,017,503	
145,187	(*d*) Furniture, Fittings and Fixtures	143,824	
8,965	(*e*) Cars and Delivery Vans	10,760	
640,564	(*f*) Patents, Trade Marks, Licences and Royalty Agreements as valued by the Directors at 31st December, 1926, *plus* additions at cost, *less* amounts written off	640,564	
4,244,610			4,045,555
	II. Investments and Advances at Cost *less* amounts written off and Reserves		
	Subsidiary Companies :		
4,932,478	(*a*) Shares	4,897,843	
196,593	(*b*) Debentures	199,740	
6,686,425	(*c*) Advances and Current Accounts (including dividends since declared)	7,373,609	
11,815,496	(In respect of this amount an allocation of £2,000,000 to Special Reserve was made in 1931, as *per contra*)	12,471,192	
	Associated Companies :		
977,087	(*d*) Shares	1,011,848	
114,225	(*e*) Advances and Current Accounts (including dividends since declared)	131,398	
	Sundry Investments		
	(*f*) In Hands of Trustees for Debenture Holders (Since released)		
73,823	British Government Securities at Cost .. 73,823 (Market Value at 31st December, 1934, £85,477)		
15,442	Cash 15,397	89,220	
18,323	(*g*) Trade Investments	9,472	
13,014,396			13,713,130
	III. Current Assets :—		
1,868,590	(*a*) Inventories of finished and unfinished goods, raw materials and stores, etc., at or below cost as certified by the Company's Officials	2,961,025	
817,775	(*b*) Sundry Debtors, *less* Reserves	820,424	
26,133	(*c*) Leasehold Redemption Policy at Surrender Value	28,349	
85,639	(*d*) Bills Receivable	80,110	
7,603	(*e*) British Government Securities at Cost .. .. (Market Value at 31st December, 1934, £437,625)	436,786	
2,805,740	Forward.. ..	£4,326,694	17,758,685

DUNLOP RUBBER

BALANCE SHEET as at

	Forward		£21,382,100
£	V. CURRENT LIABILITIES AND PROVISIONS :—	£	
	(a) Sundry Creditors, including accrued Debenture and		
545,010	Mortgage Interest	654,793	
	(b) Proposed Dividends :—		
	Preference Dividends for half year to 31st December,		
145,312	1934, *less* Income Tax	145,313	
	Ordinary Dividend for the year to 31st December,		
486,765	1934, *less* Income Tax	486,765	
583,500	(c) Taxation Reserve	676,000	
1,760,587			1,962,871
£22,213,149			£23,344,971

REPORT OF THE AUDITORS TO THE MEMBERS OF THE DUNLOP RUBBER COMPANY, LIMITED.

In accordance with the provisions of Section 134, sub-section 1, of the Companies Act, 1929, we report as follows :—

We have audited the above Balance Sheet with the books of the Company in which have been incorporated the Returns from Branches certified by Local Auditors or the Branch Officials, and we have obtained all the information and explanations we have required. In our opinion such Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs according to the best of our information and the explanations given to us and as shown by the books of the Company and the said Returns.

17*th April*, 1935.

Dr. PROFIT AND LOSS ACCOUNT

1933			
£			£
355,932	I. To Depreciation, etc.		396,322
8,000	II. ,, Directors' Fees		8,000
1,868,924	III. ,, Balance carried down		1,826,539
2,232,856			£2,230,861
	IV. To GUARANTEED PREFERENCE DIVIDENDS :		
70,882	Part in respect of Dunlop Plantations, Ltd.		—
285,176	V. ,, Interest on Debentures and Loans		138,852
1,512,866	VI. ,, Net Profit carried down		1,687,687
1,868,924			£1,826,539
403,957	VII. To Transfer to Taxation Reserve		550,060
—	VIII. ,, Transfer to Dividend Equalisation Reserve		250,000
—	IX. ,, Transfer to Reserve for Contingencies		100,000
200,000	X. ,, Transfer to General Reserve		—
	XI. ,, PREFERENCE DIVIDENDS :		
	(a) Half year to 30th June, 1934 (already paid), *less* Income		
140,625	Tax at 4s. 6d. in the £	£145,312	
	(b) Proposed for the half-year to 31st December, 1934, *less*		
145,312	Income Tax at 4s 6d. in the £	145,313	
			290,625
	XII. ,, ORDINARY DIVIDEND :		
	Proposed for the year to 31st December, 1934, *less* Income Tax at 4s. 6d.		
486,765	in the £		486,765
578,415	XIII. ,, Balance carried forward as per Balance Sheet		588,652
£1,955,074			£2,266,102

COMPANY LIMITED—(cont.)

31st DECEMBER, 1934 (cont.)

£2,805,740	Forward	£4,326,694	£17,758,685
19,097	(*f*) Other Securities	15,302	
5,597	(*g*) Accrued Interest	—	
2,097,232	(*h*) Bank Balances, Deposits, Cash in Hand and in Transit	1,210,677	
26,477	(*i*) Deferred Charges	33,613	
4,954,143			5,586,286
£22,213,149	NOTE.—The Company has guaranteed the Preference Shares of Dunlop Cotton Mills Ltd., Dunlop Plantations, Ltd., and Dunlop Rubber Co. (India) Ltd., as regards Capital, Premium and Dividends, and is also contingently liable in respect of the guarantee of Bank advances to certain Subsidiary Companies.		£23,344,971

STOKES BROS. & PIM,
WHINNEY, SMITH & WHINNEY, } *Auditors.*
Chartered Accountants.

ERIC GEDDES, *Chairman.*
J. GEORGE BEHARRELL, *Managing Director.*
C. TENNYSON, *Secretary.*

FOR THE YEAR ENDED 31ST DECEMBER, 1934 *Cr.*

1933 £		£
2,215,890	I. By Profit on Trading, Interest, Dividends on Investments, including those received from or since declared by Subsidiary and Associated Companies, and Miscellaneous Receipts	2,207,300
16,966	II. „ Repayment by Dunlop Rubber Co. (India), Ltd., on account of Guaranteed Preference Dividends paid by the Dunlop Rubber Co., Ltd., in previous years	23,561
2,232,856		£2,230,861
1,868,924	III. By Balance brought down	1,826,539
1,868,924		£1,826,539
1,512,866	IV. By Net Profit brought down	1,687,687
442,208	V. „ Balance brought forward from 1933	578,415
£1,955,074		£2,266,102

NOTE.—The Profits of Subsidiary Companies are included in the profits of this Company to the extent of (*a*) the dividends declared in respect of the year 1934 and (*b*) an appropriate amount in respect of the profits earned in 1934 by certain Subsidiary Companies which had previously sustained losses for which this Company had made provision in full.

In the case of those Subsidiary Companies which have sustained losses in 1934 this Company's proportion thereof has been provided for out of the profits as above set forth with the exception of certain losses of a capital nature which have been charged against the Reserve for Contingencies.

In the accounts of the Subsidiary Companies these losses have been either carried forward or provided for out of undistributed profits of those Companies.

ERIC GEDDES
J. GEORGE BEHARRELL } *Directors.*

DUNLOP RUBBER

CONSOLIDATED STATEMENT OF ASSETS

DUNLOP RUBBER COMPANY LIMITED

Incorporating the figures of the audited Balance Sheets (after elimination of inter-company balances) of the stated under the heading of Investments item II (d) below) in which the Dunlop Rubber Company Limited and any control.

1933 £		£	£
	I. ISSUED SHARE CAPITAL OF THE DUNLOP RUBBER COMPANY, LIMITED :—		
	1,000,000 6½% "A" Cum. Pref. Shares of £1 each fully paid	1,000,000	
	1,000,000 7% "B" do. do. do.	1,000,000	
	3,000,000 10% "C" Cum. Pref. Shares of 16s. each fully paid	2,400,000	
	£7,851,045 6s. 8d. Ordinary Stock	7,851,045	
12,251,045			12,251,045
	II. SURPLUS AND RESERVES :—		
1,309,668	(a) General Reserves	1,298,276	
2,000,000	(b) Special Reserve in the accounts of the Dunlop Rubber Company, Limited, in respect of Subsidiary Companies ..	2,000,000	
643,260	(c) Reserves for Contingencies	645,443	
—	(d) Dividend Equalisation Reserve	250,000	
661,943	(e) Surplus, i.e., Profit and Loss Account Credit Balances, after providing for Proposed Dividends	660,197	
4,614,871			4,853,916
16,865,916			17,104,961
	III. INTEREST OF OUTSIDE SHAREHOLDERS :—		
6,153,496	Preference and Ordinary Share Capital of Subsidiaries held by Outside Shareholders, after taking into account their proportion of General Reserves and Undistributed Profits or Losses attributable thereto		6,124,924
	IV. DEBENTURES, MORTGAGES AND LOANS :—		
	(a) Dunlop Rubber Company Limited, Debenture Stock £2,789,367		
	Less: Held by Subsidiary Company .. 11,028		
2,329,943		2,778,339	
785,941	(b) Loans	800,589	
10,000	(c) Mortgages	10,000	
3,125,884			3,588,928
	V. CURRENT LIABILITIES AND PROVISIONS :—		
1,647,382	(a) Sundry Creditors and Accrued Charges	1,703,509	
51,144	(b) Amounts owing to Associated Companies	54,576	
864,439	(c) Taxation Reserves	883,181	
632,077	(d) Proposed Dividends—Dunlop Rubber Company Limited, Dividends	632,078	
74,632	—Dividends of Subsidiaries to Outside Shareholders	138,266	
3,269,674			3,411,610
4,371	VI. EXCHANGE SUSPENSE ACCOUNTS, BEING AMOUNTS RESERVED FOR UNREALISED EXCHANGE DIFFERENCES		5,894
£29,419,341			£30,236,317

We have examined the above Consolidated Statement of Assets and Liabilities with the Balance Sheet of the Dunlop Rubber Company Ltd., at 31st December, 1934, as audited by us, and with the Balance Sheets of the Subsidiary and sub-Subsidiary Companies as audited by their respective Auditors. In the case of certain Subsidiary Companies the Balance Sheets are at dates other than 31st December, 1934, and the adjustments consequent thereon have been made. In our opinion the statement set forth above has been correctly compiled from the said Balance Sheets (other than those of the Companies in Germany), after giving effect to the necessary adjustments in respect of Foreign Exchange, so as to exhibit a true and correct view of the consolidated position of the Companies at 31st December, 1934.

STOKES BROS. & PIM
WHINNEY, SMITH & WHINNEY } *Chartered Accountants*

17th April, 1935.

COMPANY LIMITED

AND LIABILITIES AS AT 31st DECEMBER 1934

AND SUBSIDIARY COMPANIES

Dunlop Rubber Company Limited and all Subsidiary and sub-Subsidiary Companies (with two exceptions of its Subsidiaries hold over 50% of the Ordinary Shares or Stock of those companies and over 50% of the voting

1933 £		£	£
	I. FIXED ASSETS, at cost *less* realisations and provisions for depreciation and obsolescence :—		
	(a) Land, Factory and other Buildings, Cotton Mills, Plant,		
10,716,376	Tools, Furniture, Cars, etc.	10,399,888	
4,207,677	(b) Dunlop Plantations, Ltd., Estates, Buildings, Plant, etc	4,261,481	
640,564	(c) Patents, Trade Marks, Licences, etc.	640,565	
15,564,617			15,301,934
	II. INVESTMENTS, at Cost *less* amounts written off :—		
977,087	(a) Investments in Associated Companies	1,093,063	
	(b) British Government Securities at Cost, and Cash in hands		
89,265	of Trustees for Debenture Holders (Since released) ..	89,220	
129,285	(c) Trade and Sundry Investments	15,135	
	(d) Investments in German Companies, Shares, Advances,		
—	etc.	470,231	
1,195,637			1,667,649
	III. CURRENT ASSETS :—		
5,278,893	(a) Inventories at or below cost	6,637,052	
2,995,766	(b) Sundry Debtors, Bills Receivable, etc. *less* Reserves ..	3,031,943	
114,225	(c) Amounts owing by Associated Companies	187,295	
	(d) British and Canadian Government Securities (market		
134,021	value at 31st December, 1934, £492,601)	488,260	
54,675	(e) Other Securities	59,162	
2,668,341	(f) Bank Balances and Cash, *less* Bank Loans	1,361,387	
90,787	(g) Deferred Charges	99,705	
11,336,708			11,864,804
	IV. GOODWILL ACCOUNTS, including the difference between the values at which inter-company holdings of shares are taken as assets into the Balance Sheets and their Par values, *less* undistributed profits at the date of the ac-		
1,323,663	quisition of such shares		1,343,774
	V. SUSPENSE ACCOUNT for transactions with Subsidiary Companies between the dates of their Balance Sheets and		
Cr. 1,284	31st December, 1934..		58,156
	NOTE.—For the reasons given in the Directors' Report (page 4),* the investments of the Dunlop Rubber Company Ltd., in the German Companies as at the 31st December, 1934, are shown separately under Item II (d) above and consequently the Assets and Liabilities of those companies have not been classified under their respective headings as was done in the 1933 Consolidated Statement.		
£29,419,341			£30,236,317

ERIC GEDDES, *Chairman.*
J. GEORGE BEHARRELL, *Managing Director.*
C. TENNYSON, *Secretary.*

*On page 4 of the Directors' Report the following reasons were given :—

"During 1934 exchange restrictions in Germany increased, and in consequence it has become impossible to remit dividends or surplus funds out of Germany. In view of these exceptional circumstances, the Directors are of opinion that it would be inadvisable to include the various items from the balance sheets of the German Companies, as was done in 1933. The investment of the Dunlop Rubber Co., Ltd., in the German Companies is, therefore, shown separately under Item II (d) on page 11**.

For the same reasons the profits made in Germany, which are substantial, have not been included in the aggregate profits shown in the Statement of Profits on page 5†.

In the opinion the Directors, this change in the form of presentation is necessary in order to give the members the clearest view of the position. This view is supported by the Company's Auditors."

**The above page in this book. †Page 217 in this book.

IMPERIAL CHEMICAL INDUSTRIES LTD.

ACCOUNTS FOR THE YEAR 1934

APPROPRIATION ACCOUNT

	£	£	£
Balance brought forward from 1933 ..			566,139
Gross Income for the year to 31st December, 1934—			
Dividends from Subsidiary and Associated Companies	7,539,399		
Income from Investments	425,639		
		7,965,038	
Transfer to Central Obsolescence and Depreciation Fund	1,000,000		
Provision for Income Tax	615,931		
		1,615,931	
			6,349,107
Balance available			6,915,246
which the Directors recommend be appropriated as follows :—			
Allocation to General Reserve		1,000,000	
PREFERENCE SHARES—			
Dividend at the rate of 7% per annum :			
For the half-year ended 30th June, 1934, paid 1st August, 1934 ..	794,449		
For the half-year ended 31st December, 1934, paid 1st February, 1935	794,448		
		1,588,897	
ORDINARY SHARES—			
Dividend at the rate of 2½% per annum, paid 1st November, 1934	1,093,916		
Dividend at the rate of 4½% per annum, to be paid on 1st June, 1935 ..	1,969,050		
		3,062,966	
			5,651,863
This leaves a balance of			1,263,383
which, after deducting the amount carried forward to 1935, is available for distribution in such a manner that the total to be distributed in respect of the Ordinary Shares shall be as nearly as possible twice the total to be distributed in respect of the Deferred Shares, *viz.* :—			
ORDINARY SHARES—			
A further dividend at the rate of 1% to be paid on the 1st June, 1935, making 8% for the year 1934		437,566	
DEFERRED SHARES—			
Dividend at the rate of 2% to be paid on 1st June, 1935		217,366	
			654,932
Balance carried forward to 1935 ..			£608,451

IMPERIAL CHEMICAL INDUSTRIES LTD.

ACCOUNTS FOR THE YEAR 1934 (cont.)

RESERVE ACCOUNTS

After making the appropriations stated, the Reserve Accounts at 31st December, 1934, stand as follows :—

	£	£	£
CENTRAL OBSOLESCENCE AND DEPRECIATION FUND—			
As at 31st December, 1933		4,750,000	
Less : Amounts written off :— " Shares and Debentures in and Advances to Subsidiary Companies "		2,610,000	
		2,140,000	
Appropriated out of 1934 Income		1,000,000	
			3,140,000
GENERAL RESERVE—			
(*a*) Capital Reserve :			
As at 31st December, 1933 ..		5,750,000	
Less : Amounts written off :—			
" Shares and Debentures in and Advances to Subsidiary Companies "	107,682		
" Shares and Debentures in Associated Companies " ..	82,318		
		190,000	
		5,560,000	
(*b*) Free Reserve :			
As at 31st December, 1933 ..	4,000,000		
Appropriated out of 1934 Income	1,000,000		
		5,000,000	
			10,560,000
			£13,700,000

NOTE.—All the dividends have been or will be paid subject to deduction of Income Tax. The final dividend will be payable on 1st June, 1935, to members on the register of members on 13th April, 1935.

IMPERIAL CHEMICAL

PROFIT AND LOSS ACCOUNT FOR THE

	£	£
Interim Dividends paid for 1934		1,888,365
Provision for Final Dividends for 1934		3,418,430
Directors' Remuneration (pursuant to Section 128 of the Companies Act, 1929)	54,926	
Less Chargeable to Subsidiary Companies ..	54,926	
Balance carried forward to 1935, as shown in the Balance Sheet		608,451
		£5,915,246

BALANCE SHEET AS AT

	£	£	£
AUTHORISED CAPITAL—			
7% Cumulative Preference Shares of £1 each	22,702,000		
Ordinary Shares of £1 each ..	43,767,355		
Deferred Shares of 10s. each ..	10,872,645		
Unclassified Shares of £1 each	15,158,000		
Unclassified Shares of 10s. each	2,500,000		
	£95,000,000		
ISSUED CAPITAL—			
22,698,536 7% Cumulative Preference Shares of £1 each ..		22,698,536	
43,756,659 Ordinary Shares of £1 each		43,756,659	
21,736,561 Deferred Shares of 10s. each		10,868,280/10s.	
			77,323,476
CENTRAL OBSOLESCENCE AND DEPRECIATION FUND			3,140,000
GENERAL RESERVE—			
Capital Reserve		5,560,000	
Free Reserve		5,000,000	
			10,560,000
NOTE.—The details of the Central Obsolescence and Depreciation Fund and General Reserve are shown on page 19.*			
		Forward £	91,023,476

* Page 225 in this book.

INDUSTRIES LIMITED

YEAR ENDED 31ST DECEMBER, 1934

	£	£	£
Balance brought forward from 1933 ..		566,139	
Dividends from Subsidiary Companies (declared out of Profits for 1934 arrived at, in the majority of cases, before providing obsolescence and depreciation on fixed assets), dividends from Associated Companies and Income from Investments for the year 1934 ..		7,965,038	
		8,531,177	
Deduct Transfer to Central Obsolescence and Depreciation Fund ..	1,000,000		
Transfer to General Reserve ..	1,000,000		
Provision for Income Tax ..	615,931		
		2,615,931	
			5,915,246
			£5,915,246

31ST DECEMBER, 1934

	£	£	£
SHARES AND DEBENTURES in Subsidiary Companies (*See Note A*)—			
Shares	62,703,739		
Debentures	62,100		
		62,765,839	
ADVANCES to Subsidiary Companies for Capital Expenditure and General Development (*less* amounts written off)		21,625,766	
		84,391,605	
Less Amounts written off in 1934	2,610,000		
do. do. do.	107,682		
		2,717,682	
		81,673,923	
Less Debts due to Subsidiary Companies		10,306,694	
			71,367,229
SHARES AND DEBENTURES in Associated Companies (*See Note A*)—			
Shares	6,382,652		
Debentures	6,401		
		6,389,053	
Less Amounts written off in 1934		82,318	
			6,306,735
		Forward £	77,673,964

IMPERIAL CHEMICAL

BALANCE SHEET AS AT

Forward ..	£91,023,476
SUNDRY CREDITORS AND PROVISION FOR TAXATION AND CONTINGENCIES	4,267,747
FINAL DIVIDENDS (Gross) in respect of the year 1934, recommended for distribution ..	3,418,430
PROFIT AND LOSS ACCOUNT— Balance carried forward to 1935	608,451
	£99,318,104

NOTE A.—These Investments have been taken at cost or as revalued on the basis of earning capacity on the liquidation of Nobel Industries Ltd. in 1928, less amounts written off.

NOTE B.—There is a depreciation of £314,596 in the marketable and other investments.

NOTE C.—Contingent liabilities existed at 31st December, 1934, in connection with subsidiary or associated companies, viz. :—(*a*) guarantee of bank overdraft; (*b*) guarantees of Debentures; (*c*) guarantee of dividend on preference capital; (*d*) uncalled capital; (*e*) guarantee of employees' deposits with I.C.I. Savings Bank Limited; and (*f*) in connection with a guarantee relating to the Company's Pension Funds.

AUDITORS' REPORT

We report to the Members of Imperial Chemical Industries Limited that we have examined the above Balance Sheet, and that we have obtained all the information and explanations we have required. In our opinion the Balance Sheet referred to, together with the notes thereon, is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs at 31st December, 1934, according to the best of our information and the explanations given to us, and as shewn by the books of the Company.

PRICE, WATERHOUSE & Co.
THOMSON MCLINTOCK & Co. } *Auditors*

London, 28*th March* 1935.

INDUSTRIES LIMITED—(cont.)

31st December, 1934 (cont.)

		Forward £	77,673,964
Marketable and other Investments (*See Note B*)—			
Marketable Shares		£ 8,066,777	
Unquoted Shares	£141,531		
Unquoted Debentures	26,791		
		168,322	
			8,235,099
Sundry Debtors, Bills Receivable, Loans and Payments in Advance (less Reserves) including Income Tax recoverable from final dividends			4,679,060
Dividends (less tax) from Subsidiary Companies in respect of 1934, included in Profit and Loss Account			5,151,621
Loans to Trustees of Employees' Share Investment Scheme			4,000
Land, Buildings, Magazines, Office Furniture and Fittings, Etc. (at cost less amounts written off)			315,944
Patents and Trade Marks (at cost less amounts written off)			5,058
Cash at Bankers, in Hand and Invested in British Government Securities—			
Cash		591,112	
Government Securities at cost (Market Value £2,742,048)		2,662,246	
			3,253,358
			£99,318,104

H. McGowan, Reading, } *Directors.*

P. C. Dickens, *Treasurer.*

STATEMENT IN PURSUANCE OF SECTION 126, COMPANIES ACT, 1929

Profits of Subsidiary Companies have been included to the extent of the dividends declared and received or receivable by this Company ; the balance of these profits has been carried forward in the accounts of the Companies and exceeds the aggregate losses of other Subsidiary Companies, which have also been carried forward.

As Imperial Chemical Industries Limited has undertaken to provide Obsolescence and Depreciation on the Fixed Assets of the majority of its Subsidiary Companies, these Companies have made no such provision in their accounts except in the case of wasting assets and leaseholds. The Auditors' Certificates have been qualified accordingly.

H. McGowan, Reading, } *Directors.*

28*th March*, 1935.

J. & J. COLMAN

BALANCE SHEET AS AT

Stated to the

Liabilities		£	£
AUTHORISED CAPITAL—			
122,850 5% Cumulative Preference Shares of £10 each..		1,228,500	
26,712 5% Cumulative Second Preference Shares of £10 each		267,120	
837,190 5% Cumulative Participating Preferred Shares of £1 each		837,190	
837,190 Ordinary Shares of £1 each		837,190	
		£3,170,000	
ISSUED CAPITAL—			
122,850 5% Cumulative Preference Shares of £10 each, fully paid		1,228,500	
26,712 5% Cumulative Second Preference Shares of £10 each, fully paid		267,120	
836,255 5% Cumulative Participating Preferred Shares of £1 each, fully paid		836,255	
836,255 Ordinary Shares of £1 each, fully paid ..		836,255	
(See note in Directors' Report.)*			3,168,130
SUNDRY CREDITORS, including provision for accrued charges, Taxation, and payment due under Employees Prosperity Sharing Scheme			342,180
AMOUNTS OWING TO SUBSIDIARY COMPANIES..			486,884
PROVISION FOR DIVIDENDS DECLARED, not paid till 1935		292,688	
Less Tax		65,854	
			226,834
CONTINGENCY, DEVELOPMENT AND OTHER RESERVES		180,000	
GENERAL RESERVE		641,308	
			821,308
PROFIT AND LOSS ACCOUNT—			
Balance brought forward		78,205	
Add : Balance for the year as per account annexed		462,111	
		540,316	
Deduct :			
Preference Dividends for the year 1934	£74,781		
Dividend on Cumulative Participating Preferred Shares	83,625		
Dividend on Ordinary Shares	209,063		
		367,469	
			172,847
			£5,218,183

LIMITED

31ST DECEMBER, 1934

nearest £.

Assets	£	£
GOODWILL (at cost less amounts transferred to Subsidiary Companies)		285,440
LAND AND BUILDINGS (at cost, less Depreciation on Buildings and Leaseholds)		573,703
MACHINERY, FITTINGS, ROLLING STOCK, ETC. (at cost, less Depreciation)		281,179
HOLDINGS IN SUBSIDIARY COMPANIES (at cost, less amounts written off)		1,179,694
AMOUNTS OWING BY SUBSIDIARY COMPANIES ..		306,383
INVESTMENTS (below cost)—		
British Government and other marketable securities	1,504,411	
Trade and other Investments	101,322	
		1,605,733
STOCK IN TRADE		536,201
SUNDRY DEBTORS AND BILLS RECEIVABLE including Interest accrued and payments in advance ..		323,122
CASH AT BANKERS		126,728
		£5,218,183

JEREMIAH COLMAN
RUSSELL J. COLMAN, } *Directors.*

OF J. & J. COLMAN LIMITED

of the Company and have obtained all the information and explanations we a true and correct view of the state of the Company's affairs according to the books of the Company.

J. & J. COLMAN

PROFIT AND LOSS ACCOUNT FOR THE

Dr. Stated to the

	£	£
To DIRECTORS' FEES	10,650	
Less : Borne by Subsidiary Company	2,050	
		8,600
Balance as per Balance Sheet		462,111
		£470,711

LIMITED

YEAR ENDED 31ST DECEMBER, 1934

nearest £. *Cr.*

	£
By PROFIT ON TRADING, including net profits of wholly owned Subsidiary Companies and Dividends received from others, after making provision for Depreciation and for payment due under Employees Prosperity Sharing Scheme	431,153
INCOME FROM BRITISH GOVERNMENT and other marketable securities	39,558
	£470,711

STATEMENT PURSUANT TO SECTION 126 OF THE COMPANIES ACT, 1929

This Company's share of the net aggregate profit earned by Subsidiary Companies (with one exception referred to below) during the last year in respect of which their accounts are available has been included in this Company's Profit and Loss Account.

In the case of the Subsidiary Company excepted above, whose accounts show a profit for the year 1934, no dividend has yet been declared, but the dividend for the year 1933 is included in this Company's Profit and Loss Account.

JEREMIAH COLMAN,
RUSSELL J. COLMAN, } *Directors.*

MIDLAND

BALANCE SHEET

Liabilities	£ s d	£ s d
Share Capital Authorised—		
2,869,079 Shares of £12 each		34,428,948 0 0
2,000,000 Shares of £2 10s. each		5,000,000 0 0
5,771,052 Shares of £1 each ..		5,771,052 0 0
		£45,200,000 0 0
Share Capital Issued—		
2,869,079 Shares of £12 each, £2 10s. paid	7,172,697 10 0	
1,921,677 Shares of £2 10s. each, fully paid	4,804,192 10 0	
2,271,122 Shares of £1 each, fully paid	2,271,122 0 0	
		14,248,012 0 0
Reserve Fund		11,500,000 0 0
Dividend payable on 1st February, 1935		883,376 14 10
Balance of Profit and Loss Account, as below		871,946 8 0
		27,503,335 2 10
Current, Deposit and other Accounts .. .. (Including £255,413 10s. 11d. on Public and other Accounts secured as per contra.)	413,495,190 6 7	
Balances due to Affiliated Companies	5,542,731 19 1	
		419,037,922 5 8
Acceptances and Confirmed Credits on account of Customers ..		9,746,914 5 11
Engagements on account of Customers		6,242,723 12 10
	Forward £	462,530,895 7 3

BANK LIMITED

31st December, 1934

Assets	£ s d	£ s d
Coin, Bank Notes and Balances with the Bank of England ..		39,129,855 18 0
Balances with, and Cheques in course of Collection on other Banks in Great Britain and Ireland		14,840,427 0 6
Money at Call and Short Notice..		27,126,232 4 0
Investments at or under Market Value :—		
War Loan and other British Government Securities (of which £397,366 5s. is lodged for Public and other Accounts)	116,179,103 9 4	
British Corporation Stocks ..	246,478 13 0	
Dominion, Colonial and Foreign Government Stocks and Bonds	1,486,596 16 0	
Sundry Investments ..	577,954 9 4	
		118,490,133 7 8
Bills Discounted	18,505,694 12 9	
British Treasury Bills and Treasury Bonds due within four months	46,014,724 4 8	
		64,520,418 17 5
		264,107,067 7 7
Advances to Customers and other Accounts (less provision for Doubtful Debts and Contingencies)		163,589,512 1 3
Midland Bank Executor and Trustee Company Limited : Loans on behalf of Clients		225,728 8 0
Liabilities of Customers for Acceptances, Confirmed Credits and Engagements		15,989,637 18 9
Bank Premises at Head Office and Branches at cost, less amount written off		9,421,642 0 4
Other Properties and work in progress for extension of the business at cost, less amount written off		1,024,564 14 1
Yorkshire Penny Bank Limited—		
93,750 Shares of £5 each, £3 paid	281,250 0 0	
93,750 Shares of £1 each, fully paid	93,750 0 0	
*Proportion of Reserve relative thereto	375,000 0 0	
		750,000 0 0
	Forward £	455,108,152 10 0

BALANCE SHEET

	£	s	d
Forward ..	462,530,895	7	3

The Bank has contracts running for the sale of Foreign Currencies to the value of £19,637,419 8s. 9d. which are covered by purchases to a corresponding amount.

The total sum paid to Directors as remuneration for their services is as follows :—

Fees and Income Tax thereon at 4s. 6d. in the £., paid by the Bank..	£44,752	14	6
Fees and Income Tax thereon at 4s. 6d. in the £., paid by Affiliated Companies to such Directors of those Companies as were also Directors of the Bank	5,630	9	0
Total ..	£50,383	3	6

	£462,530,895	7	3

R. McKenna, *Chairman*

W. G. Bradshaw, S. Christopherson, } *Deputy Chairmen.*

Alexander Roger, *Director.*

Report of the Auditors to the

In accordance with the provisions of Sub-section 1 of Section 134 of the
We have examined the above Balance Sheet in detail with the Books at
satisfied ourselves as to the correctness of the Coin, Bank Notes and Balances
on other Banks in Great Britain and Ireland, Money at Call and Short Notice
vestments of the Bank and the British Treasury Bills and Treasury Bonds due
we have required, we are of opinion that such Balance Sheet is properly drawn
according to the best of our information and the explanations given to us and

London, 11*th January* 1935.

Dr. PROFIT AND LOSS ACCOUNT for the

	£	s	d
To Interim Dividend, paid 16th July 1934, at the rate of 16 per cent. per annum, less Income Tax	883,376	14	10
,, Dividend payable 1st February 1935, at the rate of 16 per cent. per annum, less Income Tax	883,376	14	10
,, Reduction of Bank Premises Account	250,000	0	0
,, Reserve for Future Contingencies	270,000	0	0
,, Balance carried forward to next Account	871,946	8	0
	£3,158,699	17	8

31st December, 1934 (*continued*)

	£	s	d	£	s	d
Forward ..				455,108,152	10	0
Shares in Affiliated Companies—						
Belfast Banking Co., Ltd.—						
200,000 Shares of £12 10s. each, £4 paid	800,000	0	0			
Reserve and Undivided Profits	839,050	14	8			
				1,639,050	14	8
The Clydesdale Bank Ltd.—						
100,000 Shares of £50 each, £10 paid .. .. .. 30,000 Shares of £10 each, fully paid	1,300,000	0	0			
Reserve and Undivided Profits	1,697,932	10	7			
				2,997,932	10	7
North of Scotland Bank Ltd.—						
163,000 Shares of £20 each, £7 paid	1,141,000	0	0			
Reserve and Undivided Profits	1,239,544	8	3			
Midland Bank Executor and Trustee Co., Ltd.—				2,380,544	8	3
200,000 Shares of £5 each, £1 paid	200,000	0	0			
Reserve and Undivided Profits	205,215	3	9			
				405,215	3	9
				£462,530,895	7	3

F. Hyde, *Managing Director.*

Members of the Midland Bank Ltd.

Companies Act, 1929, we report as follows :—

Head Office and with the certified Returns from the Branches. We have with the Bank of England, Balances with, and Cheques in course of Collection and Bills Discounted. We have verified the Securities representing the In- within four months and having obtained all the information and explanations up so as to exhibit a true and correct view of the state of the Company's affairs as shown by the books of the Company.

Whinney, Smith & Whinney,
Chartered Accountants,
Auditors.

year ended 31st December, 1934 *Cr.*

	£	s	d
By Balance from last Account	866,482	10	11
,, Net Profits for the year ended 31st December, 1934, including the sum of £385,109 dividends from Affiliated Companies, full provision having been made for Rebate, Expenses, and all Bad and Doubtful Debts	2,292,217	6	9

MIDLAND BANK

CONSOLIDATED STATEMENT OF THE ASSETS AND LIABILITIES
COMPANIES,

Liabilities	£	s	d	£	s	d
Share Capital Authorised—						
2,869,079 Shares of £12 each ..				34,428,948	0	0
2,000,000 Shares of £2 10s. each				5,000,000	0	0
5,771,052 Shares of £1 each ..				5,771,052	0	0
				£45,200,000	0	0
Share Capital Issued—						
2,869,079 Shares of £12 each, £2 10s. paid	7,172,697	10	0			
1,921,677 Shares of £2 10s. each, fully paid	4,804,192	10	0			
2,271,122 Shares of £1 each, fully paid	2,271,122	0	0			
				14,248,012	0	0
Reserve Fund				11,500,000	0	0
Dividend payable on 1st February, 1935				883,376	14	10
Balance of Profit and Loss Account				871,946	8	0
				27,503,335	2	10
Notes in Circulation				5,670,647	0	0
Current, Deposit and other Accounts				482,605,368	6	10
Acceptances and Confirmed Credits on account of Customers.. ..				10,564,476	12	9
Engagements on account of Customers				5,760,585	7	2
The Bank has contracts running for the sale of Foreign Currencies to the value of £19,637,419 8s. 9d. which are covered by purchases to a corresponding amount.						
				£532,104,412	9	7

R. McKenna, *Chairman*.

W. G. Bradshaw, S. Christopherson, } *Deputy Chairmen*.

Alexander Roger, *Director*.

We have examined the above Statement of Assets and Liabilities with
and having made the necessary adjustments, in our opinion the Statement
according to the explanations given to us and as shown by the audited accounts

London, 11*th January*, 1935.

LIMITED—(cont.)

OF THE MIDLAND BANK LIMITED AND ITS AFFILIATED

31st December, 1934

Assets	£ s d	£ s d
Coin, Bank Notes and Balances with the Bank of England		45,131,095 5 0
Balances with, and Cheques in course of Collection on other Banks in Great Britain and Ireland		16,914,066 2 8
Money at Call and Short Notice ..		30,976,416 13 3
Investments at or under Market Value		157,662,581 3 11
Bills Discounted	19,960,376 10 2	
British Treasury Bills and Treasury Bonds due within four months ..	46,203,274 4 8	
		66,163,650 14 10
		316,847,809 19 8
Advances to Customers and other Accounts (less provision for Doubtful Debts and Contingencies)		186,846,452 15 3
Liabilities of Customers for Acceptances, Confirmed Credits and Engagements		16,325,061 19 11
Bank Premises at Head Office and Branches at cost, less amount written off		9,952,528 6 0
Other Properties and work in progress for extension of the business at cost, less amount written off ..		1,382,559 8 9
Yorkshire Penny Bank Limited—		
93,750 Shares of £5 each, £3 paid	281,250 0 0	
93,750 Shares of £1 each, fully paid	93,750 0 0	
Proportion of Reserve relative thereto	375,000 0 0	
		750,000 0 0
		£532,104,412 9 7

F. Hyde, *Managing Director.*

the audited accounts of the Midland Bank Limited and its affiliated Companies shows a true and correct view of the consolidated position of the Companies of the Companies.

Whinney, Smith & Whinney,
Chartered Accountants.

MIDLAND BANK EXECUTOR AND

AFFILIATED WITH THE

BALANCE SHEET,

Liabilities	£	s	d	£	s	d
Share Capital Authorised—						
200,000 Shares of £5 each				1,000,000	0	0
Share Capital Issued—						
200,000 Shares of £5 each, £1 paid ..	200,000	0	0			
Reserve Fund	100,000	0	0			
Balance of Profit and Loss Account after payment of Directors' Remuneration and Income Tax thereon at 4s. 6d. in the £ (£1,290)	105,215	3	9			
				405,215	3	9
Midland Bank Ltd.—Loans on behalf of Clients, including outstanding cheques	230,501	19	10			
Clydesdale Bank Ltd.—Loans on behalf of Clients	10	5	9			
				230,512	5	7
Creditors for Cash Received on behalf of Clients and other Liabilities ..				1,573,758	9	1
				£2,209,485	18	5

R. McKenna, *Chairman*

W. G. Bradshaw, } *Deputy Chairmen.*
S. Christopherson, }
Alexander Roger, *Director.*
F. Hyde, *Managing Director.*
G. E. Baldry, *General Manager.*

Report of the Auditors to the Members of the Midland

In accordance with the provisions of Sub-section 1 of Section 134 of the

We have audited the above Balance Sheet with the Books at Head Office information and explanations we have required. In our opinion such Balance of the Company's affairs according to the best of our information and the

London, 10*th January*, 1935.

TRUSTEE COMPANY LIMITED

MIDLAND BANK LIMITED

31st December 1934

Assets	£ s d	£ s d
Cash at Midland Bank Ltd.	394,752 12 8	
British Government Securities under market value	10,462 11 1	
		405,215 3 9
Cash at Midland Bank Ltd. on behalf of Clients and other Accounts	1,568,858 5 8	
Cash at Clydesdale Bank Ltd. on behalf of Clients	598 10 10	
Cash at Belfast Banking Company Ltd. on behalf of Clients	2,474 10 9	
Cash at other Banks on behalf of Clients	1,827 1 10	
		1,573,758 9 1
Debtors for Cash Advances on behalf of Clients		230,512 5 7
		£2,209,485 18 5

Bank Executor and Trustee Company Limited

Companies Act, 1929, we report to the Members as follows :—

and with the certified Returns from the Branches and have obtained all the Sheet is properly drawn up so as to exhibit a true and correct view of the state explanations given to us and as shown by the Books of the Company.

Whinney, Smith & Whinney,
Chartered Accountants,
Auditors.

BELFAST BANKING

AFFILIATED WITH THE

BALANCE SHEET,

Liabilities	£	s	d	£	s	d
Capital—						
200,000 Shares of £12 10s. each, £4 paid	800,000	0	0			
Reserve Fund	800,000	0	0			
				1,600,000	0	0
Dividend payable on 15th January, 1935				34,100	0	0
Balance of Profit and Loss Account				39,050	14	8
				1,673,150	14	8
Notes in Circulation				791,821	0	0
Current, Deposit and other Accounts				14,873,703	0	6
				£17,338,674	15	2

JAMES CARLISLE, *Secretary.*
JOHN G. MCMULLEN, *Chief Accountant.*

AUDITOR'S REPORT TO THE SHAREHOLDERS OF

I have examined the above Balance Sheet in detail with the Books at
satisfied myself as to the correctness of the Cash and Bills on hand at Head
verified the Securities representing the investments of the Bank, and having
that such Balance Sheet is properly drawn up so as to exhibit a true and correct
tion and the explanations given to me and as shown by the Books of the

Belfast, 7*th January*, 1935.

COMPANY LIMITED

MIDLAND BANK LIMITED

31st December 1934

Assets	£ s d
British Legal Tender Notes, Gold and Silver Coin and Cash at Call ..	2,834,048 16 10
British Government Securities (Conversion Loan and War Loan) ..	6,578,518 3 7
Loan at Call to the Government of Northern Ireland	308,288 3 3
Ulster Loans Stock and Government of Northern Ireland Guaranteed Loan	559,756 15 6
Corporation Stock, etc.	13,431 5 6
Bills of Exchange	223,753 5 5
	10,517,796 10 1
Advances to Customers on Current and other Accounts	6,778,710 9 11
Bank Premises (Head Office and 51 Branches)	42,167 15 2
	£17,338,674 15 2

David McKee,
William Patterson,
Samuel Johnston,
Robert Carlisle,
Directors.

the Belfast Banking Company Limited

Head Office and with the certified Returns from the Branches. I have Office, and have verified the money at Call and Short Notice. I have also obtained all the information and explanations I have required, I am of opinion view of the state of the Company's affairs according to the best of my informa- Company.

G. H. Tulloch,
Chartered Accountant.
(of Craig, Gardner & Co.)

THE CLYDESDALE

AFFILIATED WITH THE

BALANCE SHEET,

Liabilities	£	s	d	£	s	d
Authorised Capital—						
100,000 Shares of £50 each ..	5,000,000	0	0			
35,000 Shares of £10 each ..	350,000	0	0			
	£5,350,000	0	0			
Subscribed and Issued Capital—						
100,000 Shares of £50 each, £10 paid	1,000,000	0	0			
30,000 Shares of £10 each, £10 paid	300,000	0	0			
				1,300,000	0	0
Reserved Surplus Fund				1,600,000	0	0
Dividend payable February and August, 1935, *less* Income Tax thereon				161,200	0	0
Balance of Profits carried to 1935 ..				97,932	10	7
				3,159,132	10	7
Deposits and other Accounts with Credit Balances				31,496,403	1	8
Acceptances and Engagements on account of Customers				834,967	16	2
Notes in Circulation				2,730,748	0	0
				£38,221,251	8	5

A. Mitchell, *General Manager*.

Auditors' Certificate

We beg to report to the Shareholders that we have examined the Books with the Securities representing the Investments of the Bank or held against in London (City Office), and in Edinburgh (Chief Office). We have obtained opinion, the foregoing Balance Sheet is properly drawn up so as to exhibit a of our information and the explanations given to us, and as shown by the

Glasgow, 9*th January*, 1935.

BANK LIMITED

MIDLAND BANK LIMITED

31st December, 1934

Assets	£ s d	£ s d
Coin, Bank of England Notes, Notes of other Banks, and Balances with the Bank of England		3,147,172 6 9
Balances with and cheques in course of collection on other Banks in Great Britain and Ireland ..		2,188,536 19 3
Money at Call and at Short Notice in London		3,391,500 0 0
Bills Discounted		1,068,166 19 11
Investments—		
(1) British Government Securities (at or under market price) ..	12,424,666 4 7	
(2) Indian and Colonial Government Securities, British Corporation Stocks, British Railway Debenture and Preference Stocks (at or under market price)	2,108,544 1 0	
(3) Bankers' Industrial Development Company Ltd.—One "A" Ordinary Share of £100,000 (£100 paid) ..	100 0 0	
(4) Other Investments (at or under market price)	527,889 12 1	
		15,061,199 17 8
Credit Accounts, and other Advances to Customers, *less* provision for doubtful debts ..		11,878,241 16 11
Bank Buildings (including London Freehold Property), at cost, *less* amount written off		351,465 11 9
Heritable Property yielding Rent, at cost, *less* amount written off		300,000 0 0
Liability of Customers for Acceptances and Engagements, *per contra*		834,967 16 2
		£38,221,251 8 5

Henry Allan, *Director*.
Archibald Walker, *Director*.
John Prosser, *Director*.

and Report

and Accounts of The Clydesdale Bank Ltd., at 31st December, 1934, along Loans, the Bills Discounted, and the Cash Balances in Glasgow (Head Office), all the information and explanations which we have required, and, in our true and correct view of the state of the Bank's affairs according to the best Books of the Company.

Wm. Elgin, C.A., *Auditor*.
J. Herbert Wilson, C.A., *Auditor*.

NORTH OF SCOTLAND

AFFILIATED WITH THE

BALANCE SHEET,

Liabilities	£ s d	£ s d
Capital Authorised and Subscribed— 163,000 Shares of £20 each ..	3,260,000 0 0	
viz: £7 per Share paid up £1,141,000 £1 per Share callable 163,000 £12 per Share reserved 1,956,000 £20 £3,260,000	1,141,000 0 0	
Reserve Fund	1,165,000 0 0	2,306,000 0 0
Profit and Loss Account— Balance before providing for Dividend recommended for payment in February, 1935 (£70,742), and Income Tax thereon (£20,538)		165,824 8 3
		2,471,824 8 3
Notes in Circulation		2,148,078 0 0
Deposit and Credit Balances (including Officers' Superannuation and Guarantee Funds and other Reserves)		24,635,947 18 9
		£29,255,850 7 0

HARVEY H. SMITH, *General Manager.*

AUDITORS' REPORT TO

In accordance with the provisions of the Companies Act, 1929, we report to which we have required.

We have examined in detail the above Balance Sheet as at 31st December Branches. In our opinion, the foregoing Balance Sheet is properly drawn up so to the best of our information and the explanations given to us, and as shown Securities representing the Investments held for the Bank are in order; spondents, and have checked the Cash at Head Office and at the principal

Aberdeen, *7th January* 1935.

BANK LIMITED

MIDLAND BANK LIMITED

31st December, 1934

Assets	£	s	d	£	s	d
Coin, Bank of England Notes and Notes of other Banks				2,185,151	2	3
Balances with and Cheques in course of collection on other Banks in Great Britain and Ireland				1,826,134	16	4
Investments at, or under, market value:						
British Government Securities ..	16,534,457	8	10			
Colonial Government and British Corporation Stocks	462,198	4	6			
Debenture and Preference Stocks, other Stocks, Shares, and Securities	184,150	7	7			
				17,180,806	0	11
Bankers' Industrial Development Co., Ltd.— One "A" Ordinary Share of £100,000, whereof £100 paid up				100	0	0
Bills Discounted .. :. ..				191,300	6	0
Advances to Customers and other Accounts				7,677,110	8	1
Bank Buildings, Furniture and Fittings, at Head Office and Branches, at cost, *less* sums set aside for Depreciation				137,252	18	9
Heritable Property yielding Rent, at cost, *less* sums set aside for Depreciation				57,994	14	8
			£	29,255,850	7	0

A S. R. Bruce,
Caithness,
Frank Fleming, } *Directors.*

the Members

the Members that we have obtained all the information and explanations

1934 with the Books at Head Office, and with the certified Returns from the as to exhibit a true and correct view of the state of the Bank's affairs according by the Books of the Bank at that date. We have satisfied ourselves that the have verified the Balances due by London Bankers and other Banking Corre- offices in London, Edinburgh and Glasgow.

Thomson McLintock & Co., C.A.,
Auditors.

THE IMPERIAL TOBACCO COMPANY (OF

BALANCE SHEET,

	Authorised in Shares of £1 each. £	s	d	*Issued and converted into Stock.* £	s	d
CAPITAL—						
"A" 5½ per cent. Cumulative Preference Shares	6,000,000	0	0	4,959,249	0	0
"B" 6 per cent. Non-Cumulative Preference Shares	6,000,000	0	0	5,260,469	0	0
"C" 10 per cent. Non-Cumulative Preference Shares	3,000,000	0	0	2,638,218	0	0
Ordinary Shares	40,000,000	0	0	37,492,625	0	0
	£55,000,000	0	0	50,350,561	0	0
Deposits by, and Current Accounts with—						
Subsidiary Companies ..	569,067	18	10			
Associated Companies	4,704	17	5			
				573,772	16	3
Creditors; Provisions for Taxation and Bonus to Customers; Estimated Capital Liability under Dividend Guarantees; Amounts set aside for Obligations to Pension Fund and for Contingencies, including fluctuations in the value of leaf tobacco stocks; Employers' Liability, Marine and other Insurance Accounts				15,219,543	18	6
Widows and Orphans Benefit Account				204,826	12	5
General Reserve Account per last Balance Sheet				6,000,000	0	0
Profit and Loss Account—						
Balance for the year (page 10)* ..	9,589,008	12	5			
Balance at 31st October 1933 ..	838,592	18	8			
	10,427,601	11	1			
Deduct: Interim Dividends paid on:—						
"A" 5½% Cum. Pref. Stock 136,379 7 0						
"B" 6% Non-Cum. Pref. Stock.. .. 157,814 1 5						
"C" 10% Non-Cum. Pref. Stock.. .. 131,910 18 0						
Ordinary Stock 2,811,946 17 6						
	3,238,051	3	11			
				7,189,550	7	2
Forward			£	79,538,254	14	4

* Page 252 in this book.

GREAT BRITAIN AND IRELAND), LIMITED

31st October 1934

	£ s d	£ s d
Land, Buildings, Plant and Machinery—at cost, less amounts written off		4,814,427 12 10
Goodwill, Patent Rights and Trade Marks—at cost (as reduced by sale of goodwill of export business in 1903), less amounts written off ..		9,422,581 16 0
Investments in Subsidiary and Associated Companies at cost, less amounts written off in those cases where depreciation has taken place :—		
Shares in Subsidiary Companies	3,195,999 19 4	
Shares and Debentures in Associated Companies	8,597,208 2 11	
		11,793,208 2 3
Note.—In the aggregate the market value of Investments in Associated Companies is largely in excess of the book value.		
Loans to, and Current Accounts with—		
Subsidiary Companies ..	404,808 6 6	
Associated Companies	959,303 1 8	
		1,364,111 8 2
Stock-in-Trade, including Leaf in transit—at approximate cost, and Advances to Branches abroad for purchase of Leaf, etc.		29,257,327 6 5
Debtors (less Reserves for Discounts and doubtful Debts)		7,900,079 13 7
Government and other Securities—at cost, less amounts written off in those cases where depreciation has taken place		8,297,894 18 6
(Market Value at 31st October, 1934—£8,939,253 4s. 8d.)		
Loans to Corporations and Public Boards, and other Investments not officially quoted—at or under cost		2,694,066 16 9
Cash at Bankers and in hand ..		3,994,556 19 10
Forward	£	79,538,254 14 4

THE IMPERIAL TOBACCO COMPANY (OF

BALANCE SHEET,

Forward		£79,538,254 14 4
MEMO.— (a) There are contingent liabilities of the nature of guarantees of dividends on shares in two Subsidiary Companies. (b) There is a contingent liability by way of guarantee in respect of the Pension Fund instituted by the Company. (c) There is an uncalled liability on Investments held of £78,441.		
		£79,538,254 14 4

P. V. ROBERTS, (Chartered Accountant),
Chief Accountant.

AUDITOR'S REPORT TO THE MEMBERS OF THE IMPERIAL TOBACCO

I have examined the above Balance Sheet dated the 31st October, 1934, the Audited Accounts of the Branches, and have obtained all the information properly drawn up so as to exhibit a true and correct view of the state of the given me, and as shown by the books of the Company.

5, London Wall Buildings, E.C.2.
22nd January 1935.

No credit has been taken for Profits earned by Subsidiary Companies for Profits have been received in the form of dividends and included in Profit and

A loss was sustained by one Subsidiary Company for the period covered pany's accounts before showing the net profit for the year to 31st October

GREAT BRITAIN AND IRELAND), LIMITED—(cont.)

31st October 1934 (*continued*)

Forward		£79,538,254 14 4
		£79,538,254 14 4

Dulverton, *Chairman*.
J. D. Player, *Director*.
R. J. Sinclair, *Secretary*.

Company (of Great Britain and Ireland), Limited.

with the books at the Head Office in Bristol, in which have been incorporated and explanations I have required. In my opinion such Balance Sheet is Company's affairs according to the best of my information and the explanations

Plender,
Auditor.
(Deloitte, Plender, Griffiths & Co.)
Chartered Accountant.

the period covered by their last audited accounts, except in so far as such Loss Account on page 11*.

by its last audited accounts. Such loss has been provided for in this Com- 1934.

Dulverton,
Chairman.
J. D. Player,
Director.

* Page 253 in this book

THE IMPERIAL TOBACCO COMPANY (OF GREAT

PROFIT AND LOSS ACCOUNT

	£ s d
Directors' Fees	10,000 0 0
Balance carried to Balance Sheet (page 8)*	9,589,008 1 5
	£9,599,008 12 5

APPROPRIATION

	£ s d	£ s d
Dividends on "A" 5½% Cumulative Preference Stock—		
Interim Dividend to 30th April 1934, paid 2nd July 1934 ..	136,379 7 0	
Final Dividend to 31st October 1934, payable 1st January 1935	136,379 7 0	
		272,758 14 0
Dividends on "B" 6% Non-Cumulative Preference Stock—		
Interim Dividend to 30th April 1934, paid 1st August 1934 ..	157,814 1 5	
Final Dividend to 31st October 1934, payable 1st February 1935	157,814 1 5	
		315,628 2 10
Dividends on "C" 10% Non-Cumulative Preference Stock—		
Interim Dividend to 30th April 1934, paid 1st August 1934 ..	131,910 18 0	
Final Dividend to 31st October 1934, payable 1st February 1935	131,910 18 0	
		263,821 16 0
Dividends on Ordinary Stock—		
Interim Dividend of 7½%, paid 1st September 1934 (free of Income Tax)	2,811,946 17 6	
Proposed Final Dividend of 7½% (free of Income Tax)	2,811,946 17 6	
Proposed Bonus of 1s. 6d. per £1 of Stock (free of Income Tax) ..	2,811,946 17 6	
		8,435,840 12 6
Balance carried forward		1,139,552 5 9
		£10,427,601 11 1

BRITAIN AND IRELAND), LIMITED—(cont.)

FOR THE YEAR ENDED 31st October 1934

	£	s	d
Net Trading Profit and Interest and Dividends on Investments and Loans (including Dividends from Companies operating outside the United Kingdom), after providing for Management Remuneration, Depreciation of Buildings, Depreciation (including renewals) of Plant and Machinery, Taxation, Working Expenses, Head Office and Registration Charges, Bonus to Customers, Pension Fund Contributions, etc.	9,594,976	8	11
Transfer and other Fees	4,032	3	6
	£9,599,008	12	5

ACCOUNT

	£	s	d
Balance from Profit and Loss Account for the year	9,589,008	12	5
Balance of undivided Profit at 31st October 1933	838,592	18	8
	£10,427,601	11	1

THE WALL PAPER

Dr. PROFIT AND LOSS ACCOUNT

	£	s	d
To Debenture Interest	40,568	11	2
,, Income Tax	58,689	17	11
,, Interest payable under Agreements for purchase of new businesses..	30,261	15	2
,, Preference Stock Dividend for the Half Year to 28th February, 1934, paid 30th April, 1934 ..	30,000	0	0
,, Interim Ordinary Stock Dividend for the year to 31st August, 1934, at 5%, paid 31st May, 1934 ..	70,000	0	0
,, Interim Deferred Stock Dividend for the year to 31st August, 1934, at 5%, paid 11th June, 1934 ..	100,000	0	0
,, Balance for appropriation as appearing in the Balance Sheet	674,365	11	8
	£1,003,885	15	11

BALANCE SHEET,

Capital and Liabilities.	£	s	d	£	s	d
Capital Authorised—						
£1,200,000 Five per cent. Cumulative Preference Stock	1,200,000	0	0			
£1,400,000 Ordinary Stock	1,400,000	0	0			
£2,000,000 Deferred Stock ..	2,000,000	0	0			
400,000 Deferred Shares of £1 each..	400,000	0	0			
	£5,000,000	0	0			
Capital Issued—						
£1,200,000 Five per cent. Cumulative Preference Stock	1,200,000	0	0			
£1,400,000 Ordinary Stock	1,400,000	0	0			
£2,000,000 Deferred Stock	2,000,000	0	0			
6,891 Deferred Shares of £1 each fully paid	6,891	0	0			
				4,606,891	0	0
Forward			£	4,606,891	0	0

MANUFACTURERS LIMITED

FOR THE YEAR ENDED 31ST AUGUST 1934 *Cr.*

	£	s	d	£	s	d
By BALANCE FROM LAST YEAR'S ACCOUNT after appropriations thereout..				261,417	3	9
,, PROFIT FOR THE YEAR ON TRADING after making provision for Depreciation and writing down of Properties and Investments, Bad and Doubtful Debts and including Dividends and Interest received and receivable from Subsidiary Companies	672,051	5	3			
NOTE.—The actual Profit, as defined above, of the Parent Company, together with its proportion, (based on Shareholding), of Profits less Losses of the Subsidiary Companies, for their respective financial years ending within the year to 31st August, 1934, amounts to £671,072 17s. 3d.						
,, INTEREST AND DIVIDENDS on British Government Securities and other Investments ..	69,832	7	6			
,, TRANSFER FEES	584	19	5			
				742,468	12	2
				£1,003,885	15	11

31ST AUGUST 1934

Assets	£	s	d	£	s	d
LAND, BUILDINGS, PLANT, MACHINERY, FITTINGS AND FIXTURES as valued at 31st August, 1929, plus additions at Cost, *less* Sales, Depreciation and amounts written off to 31st August, 1933	2,089,816	6	4			
Additions (including Properties covered by agreements for purchase but not yet conveyed or assigned to the Company) *less* Sales and Amounts written off during the year	260,356	1	2			
	2,350,172	7	6			
Less : Depreciation for the year ..	74,290	0	0			
				2,275,882	7	6
Forward				£2,275 882	7	6

THE WALL PAPER

BALANCE SHEET

	£	s	d	£	s	d
Forward				4,606,891	0	0
FOUR PER CENT. FIRST MORTGAGE DEBENTURE STOCK				1,014,214	0	0
CONSIDERATION DUE TO VENDORS FOR BUSINESSES ACQUIRED, to be satisfied by :—						
Allotment of Shares to the Nominal amount of	738,411	0	0			
Payment of Cash	1,786,405	3	4			
				2,524,816	3	4
CREDITORS AND PROVISION FOR TAXATION				365,787	8	0
AMOUNT OWING TO SUBSIDIARY COMPANY—*less* Dividend since declared				9,198	16	8
WORKMEN'S COMPENSATION INSURANCE FUND				18,067	15	7
RESERVE FUND—						
Balance as at 31st August, 1933 ..	1,000,000	0	0			
Less Amount Transferred to Goodwill Account	850,000	0	0			
				150,000	0	0
PROFIT AND LOSS ACCOUNT—Balance for Appropriation				674,365	11	8
ALAN V. SUGDEN, *Chairman*. GEO. A. ORME, W. H. WATSON } *Directors*. S. A. PURCHESE, *Secretary*.						
				£9,363,340	15	3

As regards the profits of Subsidiary Companies for their financial years ended within the year to 31st August, 1934, the aggregate Dividends received and receivable by the Company from Subsidiary Companies are slightly in excess of the actual profits earned by those Companies and such dividends have been included in the above Profit and Loss Account.

Full provision has been made in the Accounts of this Company for its proportion of the losses sustained by Subsidiary Companies. Such losses have been either carried forward in the Accounts of those Companies or provided for out of their undistributed profits.

ALAN V. SUGDEN, *Chairman*.
GEO. A. ORME,
W. H. WATSON, } *Directors*.
S. A. PURCHESE, *Secretary*.

MANUFACTURERS LIMITED—(cont.)

31st August, 1934 (*continued*)

	£ s d			£ s d		
Forward				2,275,882	7	6
Shares in Subsidiary Companies, at or below cost				1,691,004	17	7
Advances to, and Debts due from Subsidiary Companies, including Dividend since declared *less* Reserves				61,385	10	3
British Government Securities and Other Investments, at amounts realised if since sold or at redemption or market value whichever is the lower				2,142,138	6	0
Stock in Trade				845,372	8	7
Debtors and Bills Receivable, *less* Reserves				278,379	14	2
Insurance, Etc., paid in advance ..				11,663	13	7
Cash at Bankers and in Hand ..				574,481	8	10
Goodwill, Patents, Processes and Trade Marks—						
As per last Balance Sheet ..	948,815	8	7			
Less Amount appropriated from Profit and Loss Account Balance at 31st August, 1933.. 98,815 8 7						
Balance transferred from Reserve Fund .. 850,000 0 0						
	948,815	8	7			
	—	—	—			
Add Valuation in Respect of Businesses acquired, *less* premium on Shares issuable in part payment of Purchase considerations	1,843,944	11	8			
Deduct Increase in valuation of British Government securities	360,912	2	11			
				1,483,032	8	9
				£9,363,340	15	3

Report of the Auditors to the Members of the Wall Paper Manufacturers Limited

We have audited the Balance Sheet of your Company, dated 31st August, 1934, as above set forth, and have obtained all the information and explanations we have required. In our opinion such Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs, according to the best of our information and the explanations given to us and as shown by the Books of the Company.

We have also audited the Stock and Share Registers of the Company for the year ended 31st August, 1934, and certify that all transfers and allotments have been correctly recorded therein, and the relative Certificates properly authorised and that the totals of the Balances on the said Registers agree with the amounts of Issued Capital and Mortgage Debenture Stock shown in the above Balance Sheet.

THE WESTINGHOUSE BRAKE AND

BALANCE SHEET AT

	£	s	d	£	s	d
SHARE CAPITAL—						
Authorised in Shares of £1 each ..	1,200,000	0	0			
Issued—1,122,372 Shares of £1 each, fully paid				1,122,372	0	0
GENERAL RESERVE—						
As at 30th September, 1933				130,000	0	0
RESERVE for Losses of Subsidiary Companies—						
As at 30th September, 1933 ..	10,000	0	0			
Add Appropriation from Profit and Loss Account, Year to 30th September, 1934	22,352	0	0			
				32,352	0	0
SUNDRY TRADE CREDITORS, including Deposit received in Promissory Notes on Contract Work in Progress, Reserves for Accruing Expenses, Taxation and Contingencies	778,395	1	9			
AMOUNT OWING TO SUBSIDIARY COMPANY ON CURRENT ACCOUNT ..	44	7	0			
AMOUNT OWING TO ASSOCIATED COMPANY ON CURRENT ACCOUNT ..	423	3	0			
				778,862	11	9
PROFIT AND LOSS ACCOUNT—						
Balance of Profit brought forward	2,324	12	2			
Profit for year to date as per annexed Account	23,615	3	1			
				25,939	15	3
Forward			£	2,089,526	7	0

Contingent Liability on partly paid Shares, £1,509. Contingent Liability on Promissory Note sold £33,484 11s.

The Company's Bankers hold a Debenture charged on the Assets of the Company as security against overdraft when required.

SAXBY SIGNAL COMPANY LIMITED.

30th September, 1934

	£	s	d	£	s	d
Patents, Licences and Goodwill—						
At Cost *less* amounts written off ..				55,708	1	9
Freehold Property, Sidings and Tramways—						
At Cost	249,212	5	6			
Less Depreciation Reserve ..	49,078	7	5			
				200,133	18	1
Plant and Machinery—						
At Cost	376,772	10	6			
Less Renewals and Depreciation Reserves	192,074	9	11			
				184,698	0	7
Loose Tools and Patterns—						
At Cost, *less* amounts written off ..				29,737	3	8
Office Fixtures and Appliances—						
At Cost, *less* amounts written off ..				12,207	12	10
Investments in and Amounts owing from Subsidiary Companies—						
Shares as valued in 1920 with subsequent additions at Cost ..	417,892	15	4			
Debentures (Nominal £4,222) at Cost *less* amount repaid ..	3,167	0	0			
Advances and Current Accounts	50,212	8	2			
				471,272	3	6
Investments in and Amount owing from Associated Companies—						
Shares as valued in 1920 with subsequent additions at Cost ..	214,926	5	1			
Current Account	92	14	3			
				215,018	19	4
Stocks of Materials and Work in Progress				320,320	8	9
Sundry Debtors—*Less* Reserve for Doubtful Debts	91,849	1	1			
Bills Receivable	66,844	8	9			
Payments in Advance and Deferred Charges to Revenue	3,878	8	7			
Assets in Foreign Countries subject to Exchange Restrictions—						
Book Debts and Cash with Bankers	3,901	11	4			
				166,473	9	9
Promissory Notes lodged with Bankers and Others as security in connection with Contract				419,386	9	4
Bank Deposits in Australia—						
Less Reserve for Loss in Exchange ..				5,987	10	5
Forward				£2,080,943	18	0

THE WESTINGHOUSE BRAKE AND

BALANCE SHEET AT

	Forward	£2,089,526	7	0
		£2,089,526	7	0

AUDITORS'

We report to the Members of the Company that we have examined the
of the Company, and that we have obtained all the information and explana
up, so as to exhibit a true and correct view of the state of the Company's
us, and as shown by the Books of the Company.

London, *7th January*, 1935.

STATEMENT IN REGARD TO

The profits made by one Subsidiary Company during its last financial
dividend receivable from that Company. The other Subsidiary Companies
forward in the Accounts of those Companies or set against undistributed
sustained by all the Subsidiary Companies as above exceeds its share of the
vided for out of the Profits of the year.

PROFIT AND LOSS ACCOUNT FOR THE

	£	s	d
To Depreciation of Machinery, Plant, Tools, Patterns, Patents, etc.	25,763	0	1
,, Directors' Fees	2,105	5	0
(The total amount of Fees paid to the Directors by the Company and its Subsidiaries was £2,585 5s.).			
,, Interest	798	19	9
,, Provision for Losses on Exchange, less Gains ..	814	16	4
,, Provision for Losses of Subsidiary Companies ..	22,352	0	0
,, Provision for Income Tax	10,638	4	6
,, Balance being Net Profit for the Year	23,615	3	1
	£86,087	8	9

SAXBY SIGNAL COMPANY LIMITED—(cont.)

30th September, 1934

Forward	£2,080,943 18 0
Cash at Banks and in Hand	8,582 9 0
Signed on behalf of the Board. Southborough } *Directors.* B. H. Peter }	
	£2,089,526 7 0

Report

above Balance Sheet dated 30th September, 1934, with the Books and Vouchers
tions we have required. In our opinion the Balance Sheet is properly drawn
affairs, according to the best of our information and the explanations given to

Price, Waterhouse & Co.,
Auditors.

Subsidiary Companies

year have been brought into this Company's Accounts to the extent of the
incurred losses during their last financial years, which losses have been carried
profits of previous periods. This Company's proportion of the nett losses
undistributed profits earned by approximately £22,352, which has been pro-

Southborough } *Directors.*
B. H. Peter }

year ended 30th September, 1934

	£ s d
By Profit on Trading, Dividends and Interest ..	74,908 16 5
,, Profit on Sale of Argentine Government 4% Sterling Bonds, 1933	11,141 9 10
,, Transfer and Registration Fees	37 2 6
	£86,087 8 9

UNILEVER LIMITED

STATEMENT OF CONSOLIDATED PROFITS AND PROPOSED APPROPRIATIONS

1933			1934	
Unilever Limited.	*Unilever N.V.*		Unilever Limited.	Unilever N.V.
£	*fl.*		£	fl.
1,635,787	*14,007,616*	The CONSOLIDATED NET PROFIT for the year, including the Companies' proportion of the profits less losses of all Companies forming part of the Unilever Organisation, amounted to	1,805,533	14,684,846
472,248	*882,764*	Of this amount, there have been retained by Subsidiary and Associated Companies Allocations to Reserves and Undistributed Profit Balances amounting to	577,103	927,031
1,163,539	*13,124,852*	Leaving a Profit, which includes the results of Subsidiary and Associated Companies only to the extent to which dividends have been or are to be received therefrom, of	1,228,430	13,757,815
91,000	*1,554,273*	To this has been added the balance brought forward from 1933 (in the case of Unilever Ltd. after deduction of £14,148 exchange difference on Final Ordinary Dividend, 1933)	106,718	1,737,115
1,254,539	*14,679,125*	Making a Balance on Profit and Loss Account of ..	1,335,148	15,494,930
		Out of which the following Dividends have been declared and paid during 1934:—		
190,400	*2,381,470*	Dividends on the 7% Cumulative Preferred Capital, paid 1st June and 1st December	190,400	2,381,470
339,562	*3,405,270*	Interim Dividend on the Ordinary Capital, paid 1st December, 1934, of 24 cents per £1 Stock or per Fl. 12 calculated for sterling at Fl. 7.385=£1 (7.8d. per £1 Stock)	367,859	3,405,270
529,962	*5,786,740*		558,259	5,786,740
724,577	*8,892,385*	Leaving a balance available for distribution of ..	776,889	9,708,190
		Which, it is proposed, should be allocated as follows:—		
—	*1,000,000*	*Transfer to General Reserve*	—	—
250,000	*2,750,000*	Transfer to Reserve for Contingencies ..	100,000	2,500,000
353,711	*3,405,270*	Payment of a final Dividend on the Ordinary Capital of 24 cents per £1 Stock or per Fl. 12 (provisionally calculated for sterling at Fl. 7.20=£1)	377,292	3,405,270
603,711	*7,155,270*		477,292	5,905,270
120,866	*1,737,115*	Leaving a balance to be carried forward to 1935 of	299,597	3,802,920

UNILEVER

BALANCE SHEET,

1933 £	Capital and Liabilities		£ Authorised Shares and Stock	£ Issued Stock
	CAPITAL—			
	7% Cumulative Preferred		3,000,000	2,720,000
	Ordinary		12,000,000	11,318,750
	Deferred		200,000	100,000
14,138,750			15,200,000	14,138,750
6,000,000	GENERAL RESERVE			6,000,000
	CREDITORS—			
	Trade and Sundry Accounts and Reserves for Accrued Expenses			
175,091	and Taxation			202,995
1,433,914	UNILEVER N.V.—Current Account			1,079,634
	PROFIT AND LOSS ACCOUNT—			
	Balance per Profit and Loss Account		1,335,148	
	Less Dividends on 7% Cumulative Preferred Stock paid 1st June and 1st December ..	£190,400		
	Interim Dividend on Ordinary Stock paid 1st December	367,859		
			558,259	
724,577				776,889
£22,472,332				£22,198,268

TO THE MEMBERS OF UNILEVER LIMITED

We report that we have examined the above Balance Sheet with the books of the Company and have is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs as at shown by the books of the Company.

London, E.C., 15*th* April, 1935.

Dr. PROFIT AND LOSS ACCOUNT

£		£
99,912	GENERAL ADMINISTRATION EXPENSES AND INCOME TAX	84,486
1,254,539	BALANCE TO BALANCE SHEET	1,335,148
£1,354,451		£1,419,634

The Profits of Subsidiary Companies are included in the above Account to the extent to which they are

LIMITED

31st December, 1934

1933 £	*Assets*	£	£
	Investments at Cost, viz.—		
	Subsidiary Companies—		
	As per Balance Sheet 31st December, 1933..	14,707,783	
	Acquired in 1934	50	
		14,707,833	
	Associated Companies—		
	As per Balance Sheet 31st December, 1933..	4,778,805	
19,486,587			19,486,638
	Loans and Current Accounts—		
	Subsidiary Companies (including Dividends receivable) ..	882,357	
	Associated Companies (including Dividends receivable) and other Accounts	797,068	
1,915,894			1,679,425
1,069,851	Cash at Bankers and in Hand and Short Term Advances		1,032,205
	F. D'Arcy Cooper, Georg Schicht, R. J. H. Patijn, *Directors.*		
£22,472,332			£22,198,268

obtained all the information and explanations we have required. In our opinion the above Balance Sheet 31st December, 1934, according to the best of our information, and the explanations given to us and as

Price, Waterhouse & Co.,
Cooper Brothers & Co., *Chartered Accountants.*

YEAR ENDED 31st December, 1934 *Cr.*

£		£	£
	Balance Brought Forward from 1933	120,866	
	Less Difference in Exchange on Final Ordinary Dividend, 1933	14,148	
91,000			106,718
1,263,451	Profit for the Year 1934, including Dividends receivable from Subsidiary and Associated Companies		1,312,916
£1,354,451			£1,419,634

to be received in Dividends. No losses have been incurred by Subsidiary Companies.

F. D'Arcy Cooper,
Georg Schicht,
R. J. H. Patijn, *Directors.*

UNILEVER N.V.

TRANSLATION

BALANCE SHEET,

1933 fl.	Capital and Liabilities		fl. Authorised	fl. Issued
	SHARE CAPITAL—			
	7% Cumulative Preferred Shares		100,000,000	34,021,000
	Ordinary Shares		250,000,000	170,263,500
204,284,500			350,000,000	204,284,500
	GENERAL RESERVE—			
	Balance at 31st December, 1933		99,000,000	
	Add :—Allocation from Profits of 1933		1,000,000	
99,000,000				100,000,000
	CREDITORS—			
4,203,163	Trade and Sundry Accounts, Deposits and Reserves for Accrued Expenses and Taxation			3,272,563
	ASSOCIATED COMPANIES—			
4,503,636	Current Accounts and other Balances			3,646,054
	PROFIT AND LOSS ACCOUNT—			
	Balance per Profit and Loss Account		15,494,930	
	Less Dividends on 7% Cumulative Preferred Shares paid 1st June and 1st December .. .. fl.	2,381,470		
	Interim Dividend on Ordinary Shares paid 1st December	3,405,270		
			5,786,740	
8,892,385				9,708,190
fl. 320,883,684				fl. 320,911,307

TO THE MEMBERS OF UNILEVER N.V.

We report that we have examined the above Balance Sheet with the books of the Company and have considerable balances with Associated Companies and others in countries in which there are restrictions a true and correct view of the state of the Company's affairs as at 31st December, 1934, according to the

London, E.C., 15*th April*, 1935.

Dr. PROFIT AND LOSS ACCOUNT

fl.		fl.
587,766	GENERAL ADMINISTRATION EXPENSES	549,250
18,000	DIRECTORS' FEES	18,000
14,679,125	BALANCE TO BALANCE SHEET	15,494,930
fl. 15,284,891		fl. 16,062,180

The Profits of Subsidiary Companies are included in the above Account to the extent to which they are

ROTTERDAM

OF

31st December, 1934

1933 fl.	*Assets*	fl.	fl
	Investments, viz.—		
	Subsidiary Companies:		
	As per Balance Sheet 31st December, 1933.. ..	214,566,691	
	Acquired in 1934	16,014	
214,566,691			214,582,705
	Loans and Current Accounts—		
	Subsidiary Companies (including Dividends Receivable)	17,252,341	
	Associated Companies and other Accounts	68,228,939	
82,039,700			85,481,280
11,657,723	Unilever Limited—Current Account (£1,079,634) ..		7,870,535
12,619,579	Cash and Bullion at Bankers and in Hand ..		12,976,787
fl. 320,883,684			fl.320,911,307

Note in order to comply with the provisions of Art. 42 of the Dutch Commercial Code.

"Investments in Subsidiary Companies" are included at cost price, whilst all debtors are shown at their nominal value after making full allowance for doubtful items. Debts in foreign currencies are taken at the rates of exchange at 31st December, 1934.

F. D'Arcy Cooper,
Georg Schicht,
R. J. H. Patijn,
Directors.

obtained all the information and explanations we have required. Loans and Current Accounts include on the transfer of currency. In our opinion the above Balance Sheet is properly drawn up so as to exhibit best of our information, and the explanations given to us and as shown by the books of the Company.

Price, Waterhouse & Co.,
Cooper Brothers & Co.,
Chartered Accountants

YEAR ENDED 31st December, 1934 *Cr.*

fl.		fl.
1,554,273	Balance Brought forward from 1933	1,737,115
13,730,618	Profit for the Year 1934, including Dividends receivable from Subsidiary Companies	14,325,065
fl. 15,284,891		fl.16,062,180

to be received in Dividends. No losses have been incurred by Subsidiary Companies.

F. D'Arcy Cooper,
Georg Schicht,
R. J. H. Patijn,
Directors.

UNILEVER LIMITED

SUMMARY OF THE BALANCE SHEETS OF THE

AT 31st December,

	Lever Brothers Limited.	Jurgens Limited.	Van den Berghs Limited.	Anton Jurgens' Ver. Fab. N.V.	Van den Bergh's Fab. N.V.	Holl. Ver. tot Expl. van Marg. Fab. N.V.
Capital—*Issued*—	£	£	£	fl.	fl.	fl.
Preference, Preferred Ordinary and Priority	52,869,584	2,500,000	3,387,500	100,698,000	40,000,000	24,000,000
Ordinary	6,500,000	2,500,000	750,000	66,000,000	21,000,000	12,000,000
	59,369,584	5,000,000	4,137,500	166,698,000	61,000,000	36,000,000
Debentures	5,608,487	—	—	—	10,500,000	—
General Reserve ..	1,750,000	200,000	500,000	24,000,000	7,531,744	5,000,000
Creditors	1,104,213	118,743	135,371	1,036,229	3,391,230	98,138
Profit and Loss Account	6,568,844	382,254	436,249	13,000,919	5,337,734	2,888,142
Less—						
Interim Dividends paid during 1934	*2,369,121*	*87,500*	*182,479*	*3,017,940*	*1,650,000*	*690,000*
Appropriations to Contingencies and General Reserves	*500,000*	—	—	—	—	—
	71,532,007	5,613,497	5,026,641	201,717,208	86,110,708	43,296,280

APPROPRIATION OF PROFITS

	Lever Brothers Limited.	Jurgens Limited.	Van den Berghs Limited.	Anton Jurgens' Ver. Fab. N.V.	Van den Bergh's Fab. N.V.	Holl. Ver. tot Expl. van Marg. Fab. N.V.
	£	£	£	fl.	fl.	fl.
Net Profit 1934 ..	6,302,875	265,146	365,024	12,265,196	5,199,548	2,749,986
Balance from 1933 ..	265,969	117,108	71,225	735,723	138,186	138,156
	6,568,844	382,254	436,249	13,000,919	5,337,734	2,888,142
Appropriated as follows :—						
Dividends on Preference and Preferred Ordinary Capital	4,787,065	155,312	271,718	6,035,880	3,300,000	1,380,000
Dividends on Ordinary Capital	975,000	96,875	72,656	5,280,000	1,575,000	960,000
Bonuses, Directors' and Staff	—	—	—	408,477	189,955	124,599
General Reserve ..	250,000	—	—	—	—	—
Reserve for Contingencies	250,000	—	—	500,000	100,000	250,000
Balance to 1935	306,779	130,067	91,875	776,562	172,779	173,543
	6,568,844	382,254	436,249	13,000,919	5,337,734	2,888,142

AND UNILEVER N.V.

PRINCIPAL SUBSIDIARY AND ASSOCIATED COMPANIES
1934

	Lever Brothers Limited	*Jurgens Limited.*	*Van den Berghs Limited.*	*Anton Jurgens' Ver. Fab. N.V.*	*Van den Bergh's Fab. N.V.*	*Holl. Ver. tot Expl. van Marg. Fab. N.V.*
	£	£	£	fl.	fl.	fl.
Land, Buildings, Machinery, etc., *less* Depreciation	6,275,508	693,348	723,251	1	8,277,050	—
Investments in and Net Balance of Loans and Current Accounts with Subsidiary and Associated Companies (including Dividends and Profits receivable therefrom) ..	62,325,316	4,761,881	4,017,948	199,106,614	75,582,434	42,388,710
Other Investments ..	—	—	131,309	1,500	31,738	500
Stocks	763,546	66,367	45,353	—	414,030	—
Debtors	1,127,641	1,589	18,592	71,874	299,071	197,273
Cash and Bullion at Bankers and in Hand, and Short Term Advances	1,039,996	90,312	90,188	2,537,219	1,506,385	709,797
	71,532,007	5,613,497	5,026,641	201,717,208	86,110,708	43,296,280

CONSOLIDATED STATEMENT OF WORKING CAPITAL

of Unilever Limited and Unilever N.V. and all Subsidiary and Associated Companies in which either of these two Companies directly or indirectly holds 50 per cent. or over of the Ordinary Capital.

	Unilever Limited Group.	*Unilever N.V. Group.*
Current Assets :—	£	fl.
Stocks at or below Cost	21,882,000	65,565,000
Debtors and Pre-Payments less Reserves	8,933,000	43,334,000
Marketable Investments at or under Market Value	2,892,000	9,827,000
Cash at Bank and in hand, Bullion, Treasury Bills and Short Term Advances	4,939,000	47,102,000
	38,646,000	165,828,000
Deduct:		
Current Liabilities including Provision for accrued dividends on all Preferred Capital and for dividends on the Ordinary Capital of Subsidiary and Associated Companies held by Third Parties	13,258,000	61,400,000
	25,388,000	104,428,000
Inter-Group Balances	*1,442,000*	10,512,000
Net Current Assets	23,946,000	114,940,000
Combined Net Current Assets (including surplus cash in Countries with restricted currencies amounting to the equivalent of approximately £1,180,000)	£39,713,000	

WIGGINS, TEAPE AND COMPANY (1919) LIMITED

STATEMENT OF PROFITS FOR THE YEAR 1934

1933				
£				£
429,278		THE AGGREGATE PROFIT OF WIGGINS, TEAPE & CO. (1919) LTD. AND SUBSIDIARY COMPANIES FOR THE YEAR 1934, shewn by the summary of Profit and Loss Accounts, amounts to (*see* page 12)*		451,815
		Add—		
	17,606	(*a*) Surplus on Taxation credited by Subsidiary Companies..	14,430	
22,153	4,547	(*b*) Interest capitalised in Accounts of Subsidiary Company during construction of new Power Station	2,250	16,680
451,431				468,495
		Deduct—		
	46,863	(*a*) Depreciation written off in Subsidiary Companies ..	51,580	
54,223	7,360	(*b*) Development Expenses written off in Subsidiary Company	258	51,838
397,208				416,657
		Deduct—		
	39,512	(*a*) Dividends since declared and proportion of Profits less Losses of Subsidiary Companies applicable to outside shareholders	34,679	
43,486	3,974	(*b*) Profits retained by Subsidiary Companies and attributable to this Company's shareholdings therein	119	34,798
353,722		THE BALANCE OF PROFITS AVAILABLE TO WIGGINS, TEAPE & CO. (1919) LTD., AMOUNTS TO (*see* page 9) ϕ		381,859
		Deduct—		
	68,750	(*a*) Interest on Redeemable 5½% Mortgage Debenture Stock	68,750	
	48,205	(*b*) Dividend at the rate of 7% per annum, less Income Tax, on the Cumulative Preference Shares to the 30th June, 1934	48,205	
	47,535	(*c*) Interim Dividend of 3% (actual), less Income Tax on the Ordinary Shares, paid on the 1st December, 1934 ..	47,535	
	2,885	(*d*) Income Tax	11,825	
	17,000	(*e*) Amount transferred to Depreciation Reserve	18,790	
	2,436	(*f*) Depreciation written off Leases, Dandy Rolls, Motor Vehicles, etc.	2,748	
	2,433	(*g*) Provision for the share of Losses incurred by two Allied Companies attributable to this Company's shareholdings therein	2,941	
	—	(*h*) Transfer to Reserve against Trade Investments	3,500	
189,244				204,294
164,478				177,565
		Add—		
50,209		Balance brought forward from last year		51,540
£214,687		THE BALANCE OF PROFITS AVAILABLE FOR APPROPRIATION IN THE ACCOUNTS OF WIGGINS, TEAPE & CO. (1919) LTD., AMOUNTS TO		£229,105

* Page 278 in this book ϕ Page 274 in this book

WIGGINS, TEAPE AND

BALANCE SHEET
(Adjusted to

31st Dec., 1933 £		£	£
	SHARE CAPITAL—		
	Authorised:		
1,385,000	1,385,000 7% Cumulative Preference Shares of £1 each	1,385,000	
1,615,000	1,615,000 Ordinary Shares of £1 each	1,615,000	
£3,000,000	3,000,000 Shares.	£3,000,000	
	Issued:		
1,377,289	1,377,289 7% Cumulative Preference Shares of £1 each, fully paid	1,377,289	
1,584,517	1,584,517 Ordinary Shares of £1 each, fully paid	1,584,517	
2,961,806	2,961,806 Shares.		2,961,806
1,250,000	REDEEMABLE 5½% MORTGAGE DEBENTURE STOCK	1,250,000	
12,891	*Add*—Interest accrued, less Income Tax thereon	13,320	
1,262,891			1,263,320
	CREDITORS, INCLUDING ACCRUED CHARGES AND SPECIFIC RESERVES		
212,591	Trade Creditors £240,868		
40,400	Provision for Accrued Charges 28,795		
48,000	Pension Funds and Deposits Fund Loan Accounts .. 51,657		
20,000	Reserve against Losses on Exchange 20,000		
17,500	Reserve against Trade Investments 21,000		
19,594	Reserve against share of losses in Subsidiary and Allied Companies 48,802		
358,085			411,122
	RESERVE ACCOUNT—		
	As at 1st January, 1934	299,284	
	Add—Amount transferred out of Profits for the year 1933 ..	35,716	
		335,000	
	Less—Amount transferred to Subsidiary Company to write down certain Fixed Assets	44,442	
299,284			290,558
214,687	PROFIT AND LOSS ACCOUNT, as per pages 8 and 9*		229,105
	NOTES.— (1) There are contingent liabilities in respect of a guarantee on account of Preference Capital up to £385,000 and Cumulative Dividends thereon of Wiggins, Teape & Alex. Pirie (Merchants) Limited, and a guarantee of the Preference Dividend of a Subsidiary Company, amounting to £2,198 5s. per annum. (2) The Company has covenanted to pay sums amounting to £5,908 per annum for a maximum of 40 years from the 31st March, 1931, to the Company's Pension Funds in addition to its ordinary contributions.		
£5,096,753			£5,155,911

*Pages 274 and 275 in this book.

REPORT OF THE AUDITORS TO THE MEMBERS

We report that we have audited the above Balance Sheet and have obtained all the information and a true and correct view of the state of the affairs of the Company as at the 31st December, 1934, according

3 Frederick's Place,
Old Jewry, London, E.C.2.
14th May 1935.

COMPANY (1919) LIMITED

31st December, 1934
nearest £)

31st Dec., 1933 £		£	£
196,479	Cash at Bankers and in Hand		148,421
	Debtors and Payments in Advance—		
	Amounts owing by Subsidiary Companies:		
499,956	Loans .. £646,971		
873,929	Current Accounts .. 776,163		
97,724	Final Dividends for 1934 .. 99,580		
1,471,609		1,522,714	
8,284	Payments in advance and Sundry Debtors	13,158	
2,400	Balance of Income Tax recoverable from Shareholders	353	
1,482,293			1,536,225
	Stock-in-Trade as valued by the Directors—		
149,474	Paper and other Finished Products	167,891	
102,351	Raw Materials and Stores	106,700	
251,825			274,591
	Freehold Paper Mills, Land, Fixed Plant, Machinery and Fixtures, Leasehold Premises, Railway Sidings, Loose Plant, Tools, Utensils, Rolling Stock and Dandy Rolls, at Cost, less Depreciation and amounts written off—		
627,866	Freehold Land (including Water Rights), Railway Sidings, Buildings, etc. .. £630,442		
737,508	Fixed Plant and Machinery .. 747,031		
38,699	Loose Plant, Tools, Utensils, etc. .. 38,505		
25,493	Leasehold Property .. 25,253		
352	Motor Vehicles .. 235		
17,653	Furniture, Fittings, Dandy Rolls, etc. .. 18,321		
1,447,571	*Deduct:*	1,459,787	
226,000	Depreciation Reserve Account	227,903	
1,221,571			1,231,884
	Investments, at cost—		
50,100	Trade Investments	50,100	
35,833	Shares in Allied Companies	36,338	
1,701,510	Shares in Subsidiary Companies	1,721,260	
1,787,443			1,807,698
157,142	Goodwill, at cost, less amounts realised		157,092
	Portal, L. W. Farrow, } *Directors.*		
	Sissons, Bersey, Gain, Vincent & Co., *Chartered Accountants.* } *Accountants.*		
£5,096,753			£5,155,911

of Wiggins, Teape & Co. (1919) Limited

explanations we have required. In our opinion, such Balance Sheet is properly drawn up so as to exhibit to the best of our information and the explanations given to us and as shown by the Books of the Company.

Price, Waterhouse & Co., *Chartered Accountants,* } *Auditors*

WIGGINS, TEAPE AND

PROFIT AND LOSS ACCOUNT

31st Dec., 1933 £		£
315	Audit Fee	315
315	Debenture Trustees' Remuneration	315
2,875	Directors' Fees .. .. (NOTE.—Directors' Fees and Remuneration of Directors, amounting to £10,133, have been paid by Subsidiary Companies.)	2,572
12,922	Pensions and Contributions to Pension Funds and Deposits Fund	13,944
2,219	Loan Interest	2,308
17,161	Provision for the share of Losses incurred by two Subsidiary Companies attributable to this Company's shareholdings therein	26,267
353,722	Balance being Profit for the year 1934 carried down ..	381,859
£389,529		£427,580

APPROPRIATION ACCOUNT

31st Dec. 1933 £		£
68,750	Interest on Redeemable Mortgage Debenture Stock at 5½% per annum for the year 1934	68,750
48,205	Dividend at the rate of 7% per annum for the six months ended the 30th June, 1934, on the Cumulative Preference Shares	48,205
47,535	Interim Dividend on the Ordinary Shares at 3% ..	47,535
2,885	Income Tax	11,825
17,000	Depreciation Reserve Account	18,790
2,436	Depreciation written off Leases, Dandy Rolls, Motor Vehicles, etc.	2,748
2,433	Provision for the share of Losses incurred by two Allied Companies attributable to this Company's shareholdings therein	2,941
—	Transfer to Reserve against Trade Investments ..	3,500
214,687	Balance as per Balance Sheet	229,105
£403,931		£433,399

In accordance with Section 126 of the Companies Act, 1929, we report of Wiggins, Teape & Co. (1919) Limited, to the extent of the Dividends re in the Accounts of Wiggins, Teape & Co. (1919) Limited, for the share of losses ings therein.

Aldgate House, Mansell Street,
London, E.1.
14*th May*, 1935.

COMPANY (1919) LIMITED

FOR THE YEAR 1934

31st Dec., 1933		
£		£
218,095	Trading Profit for the year 1934	252,686
140,462	Dividends receivable from Subsidiary Companies (Gross)	142,856
28,951	Interest receivable from Subsidiary Companies (Gross)	31,518
1,720	Sundry Interest Receivable (Gross)	520
301	*Balance of Reserve made against Stocks of Raw Materials and Forward Contracts at the 31st December, 1930*	—
£389,529		£427,580

FOR THE YEAR 1934

31st Dec., 1933		
£		£
50,209	Balance brought forward from the year 1933 ..	51,540
353,722	Balance, being Profit for the year 1934 brought down	381,859
£403,931		£433,399

that the Profits of Subsidiary Companies have been included in the Profits ceivable from such Subsidiary Companies, and that provision has been made incurred by Subsidiary Companies attributable to this Company's sharehold-

PORTAL,
L. W. FARROW, } *Directors.*

WIGGINS, TEAPE AND
AND SUBSIDIARY

SUMMARY OF BALANCE
(Adjusted to

Incorporating the Audited Balance Sheets of the Companies set forth on page 14φ after eliminating the
the Directors of

31st Dec. 1933 £		£	
	WIGGINS, TEAPE & CO. (1919) LIMITED—		
2,961,806	Share Capital as per page 6*	2,961,806	
1,250,000	Debentures as per page 6*	1,250,000	
127,431	Dividends recommended for Payment at Annual General Meeting	127,431	
4,339,237			4,339,237
	SUBSIDIARY COMPANIES—		
1,076,300	Preference and Ordinary Share Capital held by outside Shareholders	1,076,300	
2,878	Debentures and Mortgages	2,322	
18,306	Proportion of Dividends recommended for Payment at the Annual General Meetings, applicable to outside Shareholders ..	18,306	
1,097,484		1,096,928	
7,358	*Less* Proportion of Debit Balances on Profit & Loss Account less Credit Balances & Reserves applicable to outside Shareholders	27,564	
1,090,126			1,069,364
	CREDITORS, including Accrued Charges and Specific Reserves—		
393,540	Trade Creditors £408,139		
73,698	Provision for Accrued Charges 64,449		
57,496	Pension Funds and Deposits Fund Loan Accounts .. 63,333		
20,558	Reserves for Income Tax 20,327		
23,600	Reserve against Losses on Exchange 23,600		
17,500	Reserve against Trade Investments 21,000		
2,433	Reserve against share of Losses in Allied Companies .. 5,374		
12,891	Interest accrued on Debentures 13,320		
601,716			619,542
225,824	RESERVE ACCOUNTS AND BALANCES ON PROFIT AND LOSS ACCOUNTS OF SUBSIDIARY COMPANIES existing at dates of acquisition ..	225,824	
344,925	RESERVE ACCOUNTS	350,483	
78,946	PROFIT AND LOSS ACCOUNTS as per page 12†	79,199	
649,695			655,506
£6,680,774			£6,683,649

φ Page 280 in this book * Page 272 in this book † Page 278 in this book

We hereby certify that the above Summary of Balance Sheets is correctly prepared from the Audited

London, 14*th May*, 1935.

COMPANY (1919) LIMITED,
COMPANIES

SHEETS, 31st December, 1934
nearest £)
inter-Company Shareholdings and Debts and after giving effect to the appropriations recommended by the several Companies.

31st Dec. 1933 £		£	£
329,195	Cash at Bank, in Transit and in Hand	254,147	
—	2½% Conversion Stock 1944-49	2,500	
2,491	*Treasury Bonds*	—	
331,686			256,647
	Investments, at Cost—		
81,937	Trade Investments	80,697	
35,833	Shares in Allied Companies	36,338	
117,770			117,035
	Debtors and Payments in Advance, less Reserves for Bad Debts, Discounts and Allowances—		
805,632	Trade Debtors	881,563	
35,865	Payments in Advance	38,917	
841,497			920,480
	Stock in Trade—		
823,597	Paper and other Finished Products	814,977	
341,909	Raw Materials and Stores	374,496	
1,165,506			1,189,473
	Freehold Paper Mills, Land, Fixed Plant, Machinery and Fixtures, Leasehold Premises, Railway Sidings, Loose Plant, Tools, Utensils, Rolling Stock, and Dandy Rolls, etc., at Cost, less Depreciation and amounts written off—		
1,700,174	Freehold Land (including Water Rights), Railway Sidings, Buildings, etc. £1,614,550		
30,770	Foreign Freehold Properties 32,452		
2,400,369	Fixed Plant and Machinery 2,459,426		
63,697	Loose Plant, Tools, Utensils, Dandy Rolls, etc. 61,333		
44,015	Leasehold Property 42,345		
5,855	Motor Vehicles 7,547		
40,776	Furniture, Fittings, etc. 40,594		
4,285,656		4,258,247	
677,315	*Less* Depreciation Reserve Accounts	677,508	
3,608,341			3,580,739
615,974	Goodwill Accounts, including Difference between the Values at which Inter-Company holdings of Shares are taken as assets into the Balance Sheets and their Par Values		619,275
£6,680,774			£6,683,649

Balance Sheets of the several Companies enumerated on page 14.

Price, Waterhouse & Co.,
Sissons, Bersey, Gain, Vincent & Co.,
Chartered Accountants

WIGGINS, TEAPE AND
AND SUBSIDIARY

SUMMARY OF PROFIT AND LOSS

31st Dec., 1933 £		
382,800	Administration and Selling Expenses at Home and Abroad, including Salaries, Commissions, Travelling Expenses, Warehouse Wages, Rent, Rates, Insurance, Maintenance, Lighting and Heating of Warehouses and Offices, Advertising and Samples, Bank Charges, Postages, Printing and Stationery, etc.	394,911
24,117	Pensions and Contributions to Pension Funds and Deposits Fund	26,365
6,512	Bad Debts	8,709
469	Loss on Realisation of Property and Investments ..	1,194
5,404	Cost of Maintenance of Mills not in Production ..	4,103
1,808	Interest on Mortgages and Loans	3,764
429,278	Balance, being Profit for the Year 1934, carried down	451,815
£850,388		£890,861

SUMMARY OF APPROPRIATION

(Giving effect to the Appropriations recommended

31st Dec., 1933 £			£
66,299	Depreciation		73,118
35,716	Transfer to General Reserve		50,000
7,360	Development Expenses written off		258
2,433	Provision for share of Losses incurred by Allied Companies		2,941
—	Transfer to Reserve against Trade Investments ..		3,500
	Wiggins, Teape & Co. (1919) Limited—		
68,750	Interest on Debentures	68,750	
96,410	Dividends on Preference Shares.. ..	96,410	
126,761	Dividends on Ordinary Shares	126,761	
			291,921
	Subsidiary Companies—		
39,512	Dividends and proportion of Profits less Losses Applicable to outside Shareholders		34,679
78,946	Balance as per Balance Sheet		79,199
£522,187			£535,616

COMPANY (1919) LIMITED

COMPANIES

ACCOUNTS ENDED DURING THE YEAR 1934

31st Dec., 1933 £		£
837,160	Gross Profit on Trading	882,435
8,262	Dividends and Interest Receivable	4,118
4,665	Revenue from Properties	4,308
301	*Balance of Reserve made against Stocks of Raw Materials and Forward Contracts at the* 31*st December, 1930*	—
£850,388		£890,861

ACCOUNTS ENDED DURING THE YEAR 1934

by the Directors of the several Companies.)

31st Dec., 1933 £		£
73,641	Balance brought forward from the Year 1933 ..	78,946
429,278	Balance, being Profit for the Year 1934, brought down	451,815
14,721	Surplus on Taxation Accounts	2,605
4,547	Interest capitalised during construction of New Power Station	2,250
£522,187		£535,616

WIGGINS, TEAPE AND COMPANY (1919) LIMITED

List of Wiggins, Teape & Co. (1919) Limited Group of Companies and Dates of Balance Sheets included in the summarised Balance Sheet on pages 10 and 11*

Wiggins, Teape & Co. (1919) Limited.	31st December, 1934.
Alex. Pirie & Sons Limited.	,,
Pirie's Photographic Paper Co. Limited.	,,
Wiggins, Teape & Alex. Pirie (Sales) Limited.	,,
Pirie, Appleton & Co. Limited.	,,
Wiggins, Teape & Alex. Pirie (Merchants) Limited.	,,
Charles Morgan & Co. Limited.	,,
Allied Paper Merchants (W. T. & Co.) Limited.	,,
Hamstead (Roughway) Paper Mills Limited.	,,
Busbridge & Co. (1919) Limited.	,,
Portals (John Allen and Sons) Limited.	,,
William Howard and Son Limited.	,,
Basted Paper Mills Company Limited.	,,
Annandale & Son Limited.	,,
St. Neots Paper Mill Co. Limited.	,,
William Joynson & Son (Sales) Limited.	,,
S.A. The Anglo Italo Paper Co.	,,
Dartford Paper Mills Limited.	,,
Greaseproof Paper Mills Limited.	,,
Boyden and Smith Limited.	,,
Raymakers Syndicate Limited.	,,
Manwood Sales Limited.	,,
William Joynson & Son (Paris) Limited.	31st October, 1934.
Wiggins, Teape & Alex. Pirie (Export) Limited.	31st August, 1934.
Alex. Pirie & Sons (Africa) Limited.	31st August, 1934.
Charles Morgan & Co., Africa (Proprietary), Limited.	30th September, 1934.

* Pages 276 and 277 in this book

ALUMINIUM

AND FULLY OWNED

CONSOLIDATED CONDENSED BALANCE

(In United

Assets	$	$
Land, Plants and Facilities, at Cost ..	47,645,731.57	
Less : Depreciation and Depletion ..	15,449,068.88	
		32,196,662.69
Patents and Trademarks, at Cost ..	165,998.48	
Less : Amortization	20,513.42	
		145,485.06
Investments in Shares of Partially Owned Companies		9,870,259.10
Advances to Partially Owned Companies		4,671,130.11
Unamortized Expenses Incurred in Connection with Issues of Bonds and Preferred Stock		1,037,080.58
Indemnity and Surety Deposits ..		140,013.59
Sinking Fund Balances in Hands of Trustees		23,158.17
Prepaid Expenses and Deferred Charges to Operations		1,269,253.84
Current Assets :		
Inventories of Aluminium, Materials and Supplies*	10,599,490.15	
Accounts and Notes Receivable, less Reserves	4,865,434.89	
Marketable Securities, at Cost ..	1,257,556.54	
Cash	1,767,878.08	
		18,490,359.66
Total		$67,843,402.80

* Determined by responsible officials from book and physical inventories and valued at cost or market whichever is the lower.

Approved on behalf of the Board,
Edward K. Davis, *President.*
J. H. Alger, *Director and Secretary.*

Collins & Company, *Auditors.*

LIMITED

SUBSIDIARY COMPANIES

SHEET 31st December, 1934

States Dollars)

Liabilities	$	$
Capital Stock :		
Cumulative Redeemable Preferred Stock—Par Value per Share $100.00 Outstanding—125,046 Shares ..		12,504,600.00
Common Stock—No Par Value		
490,875 Shares issued in exchange for capital shares of subsidiary and other companies	22,988,813.89	
102,004 Shares sold for cash ..	2,651,105.00	
		25,639,918.89
Funded Debt :		
5% S.F. Debenture Gold Bonds, due 1948 (Aluminium Limited) Issued ..	20,000,000.00	
Less : Bonds Retired	1,882,000.00	
	18,118,000.00	
Bonds of Fully Owned Subsidiary Companies	2,045,455.60	
		20,163,455.60
Notes given for Property Purchased, due in 1935, 1936 and 1937		1,500,000.00
Current Liabilities :		
Accounts Payable	2,037,459.39	
Bills Payable—Secured	1,028,481.86	
Bills Payable—Unsecured	3,433,196.94	
Accrued Items, Not yet due	367,530.82	
Reserves for Income and Other Taxes	145,381.69	
		7,012,050.70
Operating Reserves and Deferred Credits		521,930.68
Deferred Exchange Gains		227,888.16
Surplus		273,558.77
Total		$67,843,402.80

Notes.—Dividends of $15.75 per share have accumulated on the preferred stock. Contingent liabilities exist in respect of a secured note receivable discounted in amount $250,950.90 and customers' notes discounted in amount $13,042.16.

Approved on behalf of the Board,

Edward K. Davis, *President.*
J. H. Alger, *Director and Secretary.*

Collins & Company, *Auditors.*

ALUMINIUM LIMITED

AND FULLY OWNED SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME AND EXPENDITURE

For the Year ended 31st December, 1934

(In United States Dollars)

		$	$
Net Operating Profit before Interest, Depreciation and Depletion, Directors' Remuneration and Provisions for Income Taxes and Doubtful Accounts			2,480,329.64
Add :			
Income from Investments		505,986.43	
Gain from Sale of Investments		149,562.20	
Gain from Purchase and Redemption of Bonds		59,397.75	
Gain from Purchase and Redemption of Preferred Shares (prior to 1st October, 1934)		74,286.25	
			789,232.63
			3,269,562.27
Deduct :			
Interest on indebtedness not maturing within one year ..	$1,206,691.51		
Other Interest	425,684.35		
		1,632,375.86	
Provision for Depreciation and Depletion (including amortization of patents) ..		1,457,778.30	
Directors' Remuneration (including remuneration to directors of subsidiary companies)		20,629.80	
Provision for Canadian Income Taxes		3,310.63	
Provision for Doubtful Accounts		55,000.00	
			3,169,094.59
Net Profit for the year carried to Earned Surplus			$ 100,467.68

CONSOLIDATED STATEMENT OF SURPLUS

Earned Surplus—1st January, 1934 ..	$ 173,091.09
Net Profit for the year as above	100,467.68
Earned Surplus—31st December, 1934 ..	$ 273,558.77

ALUMINIUM LIMITED

AND FULLY OWNED SUBSIDIARY COMPANIES

Auditors' Report to Shareholders

To the Shareholders of Aluminium Limited :

As auditors of Aluminium Limited, we certify that, in examining the books of accounts of the above named company and its fully owned Canadian subsidiary companies for the year ended 31st December, 1934, we have complied with the requirements of Section 120 of the Companies Act. We have examined authenticated monthly statements for the year 1934 of the fully owned foreign subsidiary companies, whose books of accounts have been audited by other independent auditors to varying dates within the year.

On the above basis, we report and certify that we have obtained all the information and explanations we have required and in our opinion the consolidated balance sheet attached hereto is properly drawn up so as to exhibit a true and correct view of the state of the affairs of Aluminium Limited and fully owned subsidiary companies as of the 31st of December, 1934, according to the best of our information and the explanations given to us and as shown by the books of the companies.

We further certify that the relative consolidated statements of income and expenditure and of surplus accounts fairly present the results of operations of Aluminium Limited and fully owned subsidiary companies for the year ended 31st December, 1934.

Pursuant to Section 114 of the Companies Act, 1934, we report that the profits and losses for the year of the subsidiary companies not wholly owned and not consolidated have been included in the consolidated accounts only to the extent of dividends declared and received and that such dividends exceeded by $214,966.52 your company's share of the aggregate of profits less losses of these subsidiaries for the year. At 31st December, 1934, there was, in the aggregate, a net balance at the credit of these subsidiary companies' surplus accounts, of which your company's share was $996,364.32.

Collins & Company,

Auditors.

AMERICAN TELEPHONE AND TELEGRAPH CO.

BELL SYSTEM FINANCIAL STATEMENTS

The consolidated Bell System Financial Statements which follow on pages 12* to 16*, inclusive, combine and summarize the accounts of the American Telephone and Telegraph Company and its 24 associated telephone companies listed below. In so far as possible, intercompany duplications have been eliminated from these Statements.

Bell Tel. Co. of Nevada
The Bell Tel. Co. of Pennsylvania
The Chesapeake & Potomac Tel. Co.
The Chesapeake & Potomac Tel. Co. of Baltimore City
The Chesapeake & Potomac Tel. Co. of Virginia
The Chesapeake & Potomac Tel. Co. of West Virginia
The Cincinnati & Suburban Bell Tel. Co.
The Diamond State Tel. Co.
The Home Tel. & Tel. Co. of Spokane
Illinois Bell Tel. Co.
Indiana Bell Tel. Co.
Michigan Bell Tel. Co.
The Mountain States Tel. & Tel. Co.
New England Tel. & Tel. Co.
New Jersey Bell Tel. Co.
New York Tel. Co.
Northwestern Bell Tel. Co.
The Ohio Bell Tel. Co.
The Pacific Tel. & Tel. Co.
Southern Bell Tel. & Tel. Co.
Southern California Tel. Co.
The Southern New England Tel. Co.
Southwestern Bell Tel. Co.
Wisconsin Tel. Co.

On page 23ø is shown the percentage of interest of the American Telephone and Telegraph Company in the stock of its associated companies except for three companies, viz., the Bell Telephone Company of Nevada, The Home Telephone and Telegraph Company of Spokane, and Southern California Telephone Company, all of whose outstanding stock is owned by The Pacific Telephone and Telegraph Company. In two of the companies, The Cincinnati and Suburban Bell Telephone Company and The Southern New England Telephone Company, the American Telephone and Telegraph Company owns less than a controlling interest in their outstanding stock but in view of their close relationship to other Bell System companies their accounts have for many years been included in the combined Bell System figures.

The accounts of other companies controlled directly or indirectly by the American Telephone and Telegraph Company have not been consolidated. The more important of these companies are the Western Electric Company, Inc., The Tri-State Telephone and Telegraph Company, Bell Telephone Laboratories, Inc., and 195 Broadway Corporation. Investments in this group of companies are shown on the Consolidated Balance Sheet under "Investments in Controlled Companies (not consolidated)" at net worth as derived from their respective balance sheets. Dividends and interest received from them are included in the Consolidated Income Statement under "Other Earnings—Net," and the Bell System's proportionate interest in their earnings or deficits for the year (after dividends) has also been reflected in this statement. Investments in other companies, such as Bell Telephone Company of Canada, Cuban American Telephone and Telegraph Company, etc., are shown on the Consolidated Balance Sheet under "Investments in Non-Controlled Companies (not consolidated)", and dividends and interest received from them appear in the Consolidated Income Statement under "Other Earnings—Net."

Since January 1, 1913, Bell System telephone companies have maintained their accounts in accordance with the Uniform System of Accounts prescribed for telephone companies by the Interstate Commerce Commission and now continued in effect by the Federal Communications Commission. This system of accounts establishes specific rules in respect of the items to be included in the various accounts which have been prescribed. In accordance with these rules, telephone plant has been carried in the accounts (with certain exceptions specified in the rules prescribed) at cost. Expenditures for patents by the American Telephone and Telegraph Company have been charged off as incurred and thus are not included in the asset accounts.

* Pages 288 to 292 in this book ø Page 298 in this book

(Consolidating the accounts of the American Telephone and

CONSOLIDATED

Assets	*Dec. 31, 1934*	*Dec. 31, 1933*
	$	$
TELEPHONE PLANT	4,248,186,253	4,240,672,792
Plant and equipment for furnishing service, comprising land and buildings, rights of way, poles, wire, cable, underground conduit, switchboards, telephones, office furniture, vehicles, tools, construction work in progress, etc. Includes also Organization and Franchise costs—$1,993,028 in 1934 and $2,026,468 in 1933.		
INVESTMENTS IN CONTROLLED COMPANIES (NOT CONSOLIDATED):		
Investments in controlled companies at net worth as derived from the accounts of these companies. (See page 11.)ø		
Stocks	208,816,934	215,679,374
Bonds, Notes and Advances	23,461,294	22,964,688
INVESTMENTS IN NON-CONTROLLED COMPANIES (NOT CONSOLIDATED):		
Stocks	37,487,074	36,799,661
Bonds, Notes and Advances	13,718,453	13,992,221
MISCELLANEOUS INVESTMENTS:		
Cash and Securities in Sinking Funds ..	3,985,753	3,373,197
Other Investments	22,939,802	16,182,752
Principally real estate not now used for telephone purposes.		
CURRENT ASSETS:		
Cash and Deposits	47,728,242	37,971,120
Temporary Cash Investments*	207,597,962	180,948,715
Current Receivables	88,051,895	92,348,254
Interest and dividends receivable, working advances, amounts due for service, etc., less reserves for uncollectible accounts.		
Material and Supplies	49,742,663	53,564,348
DEFERRED DEBITS:		
Discount on Funded Debt	14,250,628	15,147,015
Prepayments of Rents, Taxes, Directory Expenses, etc.	6,832,715	6,592,069
Other Deferred Debits (*b*)	4,255,018	4,172,963
Amounts in closed and restricted banks (less reserves); materials held pending use in deferred construction projects; and other items, the final disposition of which has not been determined.		
Total Assets	$4,977,054,686	$4,940,409,169

FINANCIAL STATEMENTS

Telegraph Company•and its 24 Associated Telephone Companies)

BALANCE SHEET (*a*)

Liabilities	*Dec. 31, 1934*	*Dec. 31, 1933*
COMMON STOCK—AMERICAN TEL. AND TEL. CO.	$ 1,866,227,500	$ 1,866,227,500
Par value of 18,662,275 shares outstanding.		
PREMIUMS ON STOCK—AMERICAN TEL. AND TEL. CO.	268,749,078	268,749,078
Amount received in excess of par value.		
STOCK INSTALMENTS—AMERICAN TEL. AND TEL. CO.	9,078,812	12,405,181
Amount received under Employees' Stock Plan on stock subscriptions not yet completed or cancelled.		
PREFERRED STOCK—ASSOCIATED TELEPHONE COMPANIES	97,937,600	97,937,600
Par value outstanding in hands of public.		
LONG-TERM DEBT (See page 17*).		
American Tel. and Tel. Co.	454,484,613	455,494,513
Associated Telephone Companies ..	584,340,072	582,130,247
CURRENT LIABILITIES	67,461,124	49,306,050
Current bills for supplies, services, etc.; also customers' deposits, advance payments for service, and (for 1934) an amount of $17,112,621 for refunds due subscribers under rate orders.		
ACCRUED LIABILITIES NOT DUE	112,134,912	113,843,205
Taxes, interest, dividends and rents payable after the close of the year.		
DEFERRED CREDITS	3,462,014	2,532,616
Items, the final disposition of which had not been determined at close of year.		
RESERVES FOR DEPRECIATION OF PLANT AND EQUIPMENT	967,712,984	891,437,886
Provision for the ultimate retirement of plant and equipment used up in furnishing service.		
OTHER RESERVES	1,631,578	1,564,018
Provision for pending accident cases and for ultimate retirement of leaseholds, franchises, etc.		
EQUITY (OTHER THAN OF AMERICAN TEL. AND TEL. CO.) IN COMMON STOCK AND SURPLUS OF ASSOCIATED TELEPHONE COMPANIES	142,564,383	143,881,871
Common stock outstanding in hands of public together with the proportionate interest in surplus applicable thereto.		
EQUITY OF AMERICAN TEL. AND TEL. CO. IN CONSOLIDATED SURPLUS: SURPLUS RESERVED	80,213,792	87,272,314
Surplus appropriated against general contingencies, etc., including $15,265,491 for contingency of refunds of revenues collected.		
UNAPPROPRIATED SURPLUS (See page 15ø)	321,056,224	367,627,090
Total Liabilities	$4,977,054,686	$4,940,409,169

BELL SYSTEM

(Consolidating the accounts of the American Telephone and

CONSOLIDATED

	(c) Year 1934	Year 1933
OPERATING REVENUES—	$	$
LOCAL SERVICE REVENUES .. .. Revenues from local exchange service.	(c) 607,676,275	617,253,153
TOLL SERVICE REVENUES .. .. Revenues from long distance and local toll service.	258,691,363	243,905,775
MISCELLANEOUS REVENUES .. .. Revenues derived from directory advertising, rents and miscellaneous sources.	21,177,599	20,960,449
Less : UNCOLLECTIBLE OPERATING REVENUES (d) .. .. Provision made during year for revenues which may be uncollectible.	(c) 3,012,808	9,713,150
Total Operating Revenues (e) ..	$884,532,429	$872,406,227
OPERATING EXPENSES—		
CURRENT MAINTENANCE .. .. Cost of inspection, repairs and rearrangements required to keep the plant and equipment in good operating condition, representing 4.1 per cent. of the cost of the average plant in service during 1934.	172,804,235	163,645,649
DEPRECIATION EXPENSE (f) .. .. Provision to meet loss of investment when depreciable property is retired from service, based on rates of depreciation which spread this loss of investment uniformly over its service life.	(c) 153,474,643	171,846,193
TRAFFIC EXPENSES .. .. .. Costs incurred in the handling of messages, principally operators' wages.	128,047,316	125,008,390
COMMERCIAL EXPENSES .. .. .. Costs incurred in business relations with customers ; also the cost of advertising, sales activities, directories, pay station commissions, etc.	71,573,365	68,245,295
GENERAL AND MISCELLANEOUS EXPENSES :		
General Administration, including cost of Development and Research	21,503,471	20,987,626
Accounting and Treasury Departments	32,222,926	31,022,363
Provision for Employees' Service Pensions	11,321,217	11,308,537
Employees' Sickness, Accident, Death and other Benefits ..	6,378,700	5,954,377
Other General Expenses	7,604,318	6,999,460
Less : Expenses Charged Construction	2,314,079	2,295,904
OPERATING RENTS .. .. .. Rents paid for the use of buildings, poles, conduits and other facilities.	13,436,143	13,929,106
Total Operating Expenses ..	$616,052,255	$616,651,092
Net Operating Revenues (carried forward)	$268,480,174	$255,755,135

FINANCIAL STATEMENTS

Telegraph Company and its 24 Associated Telephone Companies)

INCOME STATEMENT.

	(c) *Year 1934*	*Year 1933*
	$	$
Net Operating Revenues (brought forward)	268,480,174	255,755,135
TAXES	(c) 89,485,361	84,880,862
Federal, state and local taxes.		
Operating Earnings	$178,994,813	$170,874,273
OTHER EARNINGS—NET:		
Dividends from Controlled Companies (not consolidated)	3,125,525	3,073,905
Dividends from Non-Controlled Companies	1,969,805	1,853,366
Interest Revenues, and Miscellaneous Earnings—Net	6,813,480	7,134,837
Proportionate interest in earnings or deficits (after dividends) of Controlled Companies not consolidated	**7,990,843*	**14,004,686*
Total Net Earnings	$182,912,780	$168,931,695
INTEREST DEDUCTIONS	(c) 57,560,994	54,351,433
Interest charges, including amortization of discount on funded debt and taxes payable under bond indentures.		
Net Income	$125,351,786	$114,580,262
DIVIDENDS ON PREFERRED STOCK OF ASSOCIATED TELEPHONE COMPANIES HELD BY PUBLIC	6,425,085	6,425,085
NET INCOME APPLICABLE TO COMMON STOCK OF ASSOCIATED TELEPHONE COMPANIES HELD BY PUBLIC	7,759,147	7,813,302
NET INCOME APPLICABLE TO STOCK OF AMERICAN TEL. AND TEL. CO.	111,167,554	100,341,875
NUMBER OF SHARES OF AMERICAN TEL. AND TEL. CO. STOCK OUTSTANDING DURING THE YEAR	18,662,275	18,662,275
EARNINGS PER SHARE	$5.96	$5.38

*Italics denote deficit.

CHANGES DURING 1934 IN
AMERICAN TELEPHONE AND TELEGRAPH COMPANY'S EQUITY
IN CONSOLIDATED UNAPPROPRIATED SURPLUS

Balance—December 31, 1933	$367,627,090
Transferred from Surplus Reserved (Net)	7,058,522
Net Income applicable to stock of American Tel. and Tel. Co.	111,167,554
Miscellaneous Additions (Net)	3,163,533
Total	$489,016,699
Dividend requirements (American Tel. and Tel. Co.). ..	167,960,475
Balance—December 31, 1934	$321,056,224

C. A. HEISS,

AMERICAN TELEPHONE AND TELEGRAPH CO.

BELL SYSTEM FINANCIAL STATEMENTS

Explanatory Notes Relating to Consolidated Balance Sheet and Income Statement

(*a*) As of December 31, 1934, certain of the companies consolidated had contingent liabilities to make refunds with interest in the event of adverse decisions in court cases involving charges for telephone service of some $20,000,000 which have been collected during the period 1924 to 1934, inclusive, and taken up in the accounts, pending final adjudication. Against these contingencies there has been set aside by these companies in " Surplus Reserved " the amount of $15,275,675. In two cases, The Ohio Bell Telephone Company and the Southwestern Bell Telephone Company, the American Telephone and Telegraph Company is surety on bonds executed by these companies in the amount of $17,112,668.94 and $3,000,000, respectively, to guarantee such refunds, if any, as may finally be made. Also the New Jersey Bell Telephone Company was, as of December 31, 1934, guarantor for the payment of collateral notes in the amount of $819,825.

(*b*) As of December 31, 1934, Bell System companies had deposits in closed banks and banks operating on a restricted basis in the amount of $2,813,000, against which reserves to meet probable losses have been set aside. During 1934 such accounts in closed or restricted banks decreased $632,000.

(*c*) The Income Statement for 1934 reflects adjustments in certain accounts of two of the companies consolidated therein (Illinois Bell Telephone Company and The Chesapeake and Potomac Telephone Company) made in connection with court decisions rendered during the year which upheld rate reductions previously ordered by regulatory authorities but suspended pending court review. The effect of these adjustments on the accounts involved is as follows :

Accounts decreased :	$
Local Service Revenues	16,916,059
Uncollectible Operating Revenues	995,000
Depreciation Expense	15,948,059
Taxes	574,905
Accounts increased :	
Interest Deductions	4,805,738

(*d*) The decrease in provision for Uncollectible Operating Revenues in 1934 is due principally to improved collection conditions experienced during the year. In addition the account reflects some adjustments of the charges made in prior years against anticipated losses. (See also note (*c*).)

(*e*) Operating Revenues reported for 1934 include for five of the companies consolidated some $5,000,000 subject to possible refund in the event of adverse decisions in pending rate cases. Provision against contingency of such refunds has been made in Surplus Reserved. (See note (*a*).)

(*f*) Excluding the depreciation adjustment referred to in note (*c*), depreciation expense for 1934 would have been $169,422,702, representing 4.3 per cent. of the cost of the average depreciable plant in service.

AMERICAN TELEPHONE AND TELEGRAPH CO.

BELL SYSTEM CAPITAL OBLIGATIONS

Stocks, Bonds and Notes Outstanding December 31, 1934
(Inter-Company Holdings Excluded)

	Par Value $	*Increase* During Year* $
Common Stock (American Telephone and Telegraph Company)	$1,866,227,500	—
Common Stock (Associated Companies):		
New England Telephone and Telegraph Company	46,251,600	—
Southern New England Telephone Company	26,662,600	—
Cincinnati and Suburban Bell Telephone Co.	19,319,250	—
Illinois Bell Telephone Company	1,051,800	*205,600*
Mountain States Telephone and Telegraph Company	13,062,200	—
Pacific Telephone and Telegraph Company	26,580,100	—
Other Associated Companies..	15,193	600
Total Common Stock, Associated Companies	$132,942,743	*$205,000*
Preferred Stock (Associated Companies):		
New York Telephone Company 6½% ..	25,000,000	—
Bell Telephone Company of Pennsylvania 6½%	20,000,000	—
Diamond State Telephone Company 6½% ..	500,000	—
Chesapeake and Potomac Tel. Co. of Baltimore City 7%	3,000,000	—
Wisconsin Telephone Company 7%	4,947,000	—
Northwestern Bell Telephone Company 6½%	4,800,800	—
Southwestern Bell Telephone Company 7%	21,785,500	—
Pacific Telephone and Telegraph Company 6%	17,904,300	—
Total Preferred Stock, Associated Companies	$97,937,600	—
Bonds and Notes (American Telephone and Telegraph Company):	*Face Value*	
Thirty Year Collateral Trust 5s., 1946 ..	65,627,100	*761,900*
Thirty-Five Year Sinking Fund Debenture 5s., 1960	117,819,700	*135,000*
Thirty-Five Year Debenture 5s, 1965 ..	149,899,000	*60,000*
Twenty Year Sinking Fund Debenture 5½s, 1943	94,604,700	*53,000*
Thirty Year Convertible 4s, 1936 (*a*) ..	2,589,000	—
Ten Year Convertible 4½s, 1939	12,923,000	—
Notes (demand notes sold to Trustee of Pension Fund)	11,022,113	—
Total Bonds & Notes, American Tel. & Tel. Co.	$454,484,613	*$1,009,900*

AMERICAN TELEPHONE AND TELEGRAPH CO.

BELL SYSTEM CAPITAL OBLIGATIONS—*continued*

BONDS AND NOTES (ASSOCIATED COMPANIES) (*b*):	$	$
New England Telephone and Telegraph Co.:		
First Mortgage Series A 5s, 1952	35,000,000	—
First Mortgage Series B 4½s, 1961	40,000,000	—
Southern New England Telephone Company:		
Debenture 5s, 1970	10,000,000	—
New York Telephone Company:		
First and General Mortgage 4½s, 1939 ..	60,856,095	1,065
Bell Telephone Company of Pennsylvania:		
First Mtge. 5s, 1943 (Central District Telephone Co.)	8,555,500	—
First and Refunding Mortgage 5s, 1948 ..	35,000,000	—
First and Refunding Mortgage 5s, 1960 ..	50,000,000	—
Chesapeake and Potomac Telephone Company of Virginia:		
First Mortgage 5s, 1943	4,261,100	30,300
Southern Bell Telephone and Telegraph Co.:		
First & Gen. Mtge. 5s. 1937 (Cumberland Tel. & Tel. Co.)	14,969,000	—
First Mortgage 5s, 1941	47,070,500	—
Ohio Bell Telephone Company:		
Consolidated 5s, 1944 (Ohio State Tel. Co.)	4,749,000	*62,000*
Illinois Bell Telephone Company:		
First and Refunding Mortgage 5s, 1956 ..	48,726,200	—
Southwestern Bell Telephone Company:		
First and Refunding Mortgage 5s, 1954 ..	48,836,600	—
Pacific Telephone and Telegraph Company:		
First Mortgage and Collateral Trust 5s, 1937	25,602,000	*632,000*
First & Ref. Mtge. 5s, 1947 (Southern California Tel. Co.)	6,173,000	*116,000*
Refunding Mortgage 5s, 1952	23,890,000	—
First Mtge. 5s, 1936 (Home Tel. & Tel. Co. of Spokane)	2,999,900	—
Minor Bond Issues (9 in number)	8,390,000	*870,700*
Real Estate Mortgages	2,478,000	*61,150*
Notes (principally demand notes sold to Trustee of Pension Funds)	106,783,177	3,920,310
Total Bonds and Notes, Associated Cos. ..	$584,340,072	$2,209,825

*Decreases in italics. (*a*) Conversion privilege expired. (*b*) Includes issues assumed or guaranteed.

AMERICAN TELEPHONE AND TELEGRAPH CO.

BALANCE SHEET

Assets	*Dec. 31, 1934* $	*Dec. 31, 1933* $
Investments—		
Stocks of Associated Companies (*a*)	2,012,450,662.42	1,992,245,687.42
Investment, at cost, in stocks of associated telephone companies		
Controlled companies $1,990,068,881		
Noncontrolled companies.. .. 22,381,781		
Stocks of Other Companies (*a*)	169,869,418.17	169,898,358.57
Investment, at cost, in stocks of other than associated telephone companies:		
Controlled companies $150,510,610		
Noncontrolled companies 19,358,808		
Notes of, and Advances to, Associated Companies (*a*)	166,213,881.50	239,663,052.50
Controlled companies $159,863,882		
Noncontrolled companies 6,350,000		
Notes of, and Advances to, Other Companies (*a*)	21,627,000.00	21,632,000.00
Sinking Funds	1,168,233.04	339,555.37
Amounts on deposit with trustees under bond indentures.		
Plant and Equipment—		
Long Lines Plant	440,880,338.93	441,706,364.33
Plant and equipment mainly for providing interconnection between and through territories of associated telephone companies.		
General Equipment	1,083,715.19	1,533,681.53
Office furniture and equipment other than that included in Long Lines Plant.		
Current Assets—		
Cash and Deposits..	15,231,954.68	11,984,270.14
Temporary Cash Investments	183,946,601.98	174,660,486.49
Comprised, at December 31, 1934, of United States Government obligations. (Market value at that date $185,669,000.)		
Current Receivables	11,397,856.47	11,939,677.42
Interest and dividends receivable, working advances, amounts due for service, etc., less provision for uncollectible accounts.		
Material and Supplies	9,232,437.50	12,269,004.27
Deferred Debits	1,534,713.52	696,527.97
Prepayments of rents, taxes and insurance; also deferred items including materials held pending use in deferred construction projects.		
Total Assets	$3,034,636,813.40	$3,078,568,666.01
(*a*) For detailed list of investments see page 23*.		

Note.—At December 31, 1934 there were pledged with the Old Colony Trust Company, Trustee stocks of Associated Companies having a par value of $111,650,100 (book value of $112,469,276), under Trust Indenture securing this Company's Thirty-Year Collateral Trust 5s., dated December 1, 1916, of which $65,627,100 face value were outstanding.

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AMERICAN TELEPHONE AND TELEGRAPH CO.

BALANCE SHEET—*continued*

Liabilities	*Dec. 31, 1934*	*Dec. 31, 1933*
CAPITAL STOCK:	$	$
STOCK ISSUED AND OUTSTANDING (Authorized $2,500,000,000) Par value of 18,662,275 shares of common stock outstanding.	1,866,227,500.00	1,866,227,500.00
PREMIUMS .. .. Amount received in excess of par value of stock.	268,749,077.67	268,749,077.67
CAPITAL STOCK INSTALLMENTS .. .. Amount received under Employees' Stock Plan on stock subscriptions not yet completed or cancelled.	9,078,812.12	12,405,180.93
LONG-TERM DEBT (See page 17): Ø		
BONDS AND DEBENTURES	444,294,500.00	445,056,400.00
NOTES .. .. Notes sold to Trustee of Pension Fund.*	11,022,112.57	11,022,112.57
CURRENT AND ACCRUED LIABILITIES:		
DIVIDEND PAYABLE .. .. Dividend declared, payable after close of year.	41,990,118.75	41,990,118.75
ACCOUNTS PAYABLE .. .. Current accounts for supplies, services, etc., and other obligations subject to current settlement.	2,802,679.16	7,582,768.59
INTEREST AND TAXES ACCRUED, NOT DUE .. .. .. Interest and taxes payable after close of year.	10,789,118.12	10,730,332.06
DEFERRED CREDITS .. .. Items, the final disposition of which had not been determined at close of year. Includes also reserves for accidents and unemployment insurance.	1,719,044.78	817,886.49
RESERVES FOR DEPRECIATION OF PLANT AND EQUIPMENT Provision for the ultimate retirement of plant and equipment used up in furnishing service.	87,361,634.76	76,645,411.11
SURPLUS:		
SURPLUS RESERVED .. .. Amount reserved for general contingencies.	64,664,444.18	64,664,444.18
UNAPPROPRIATED SURPLUS .. .. Decrease for 1934 comprises: Dividends charged against Surplus .. $46,211,746; Miscellaneous deductions (net) 527,916	225,937,771.29	272,677,433.66
Total Liabilities	$3,034,636,813.40	$3,078,568,666.01

*Evidenced by demand notes.

NOTE.—On December 31, 1934, the American Telephone and Telegraph Company was surety on bonds for $17,112,668.94, executed by The Ohio Bell Telephone Company as principal, providing for the refund by that Company to telephone users of sums, if any, which may be found to have been collected under rates in excess of those ultimately held legal. The Company was also surety on a similar bond of the Southwestern Bell Telephone Company in the amount of $3,000,000.

C. A. HEISS,
Comptroller.

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AMERICAN TELEPHONE AND TELEGRAPH CO.

INCOME STATEMENT

	Year 1934 $	Year 1933 $
OPERATING REVENUES		
Toll Service Revenues	74,088,966.24	70,830,767.30
Message tolls and private line service revenues.		
License Contract Revenues	11,803,217.41	11,962,935.47
Payments received for services furnished associated telephone companies under license contracts.		
Miscellaneous Revenues	4,120,251.71	4,942,141.74
Less: Uncollectible Operating Revenues	564,527.00	1,040,735.14
Total Operating Revenues	$89,447,908.36	$86,695,109.37
OPERATING EXPENSES (*a*)		
Current Maintenance	14,714,864.11	13,536,614.06
Depreciation Expense	17,407,298.72	16,876,063.68
Traffic and Commercial Expenses	7,214,347.35	6,647,645.22
Provision for Employees' Service Pensions	901,178.00	945,808.00
Employees' Sickness, Accident, Death and other Benefits ..	371,014.57	459,916.64
Operating Rents	11,396,928.94	12,541,015.39
General and Miscellaneous Expenses	17,662,780.21	17,177,840.40
Less: Expenses Charged Construction	94,572.36	95,194.20
Total Operating Expenses	$69,573,839.54	$68,089,709.19
Net Operating Revenues	$19,874,068.82	$18,605,400.18
TAXES	5,364,162.84	4,951,940.52
Operating Earnings	14,509,905.98	13,653,459.66
DIVIDEND REVENUES	115,409,048.13	127,913,090.47
INTEREST REVENUES	15,271,590.36	20,231,713.69
MISCELLANEOUS NON-OPERATING REVENUES—NET	721,926.64	371,507.55
Total Net Earnings	$145,912,471.11	$162,169,771.37
INTEREST DEDUCTIONS	24,163,741.81	24,712,995.03
Net Income (*b*)	$121,748,729.30	$137,456,776.34
DIVIDENDS DECLARED	$167,960,475.00	$167,960,475.00
Dividends at the rate of $9.00 per share per annum on capital stock:		
Charged against Net Income	121,748,729.30	137,456,776.34
Charged against Surplus	46,211,745.70	30,503,698.66

(*a*) The expenses shown under this caption include the cost of maintaining and operating the Company's long distance communication service and costs incurred by the Company in the performance of general staff services, i.e., development and research, patent, general advisory and other services, furnished associated telephone companies under license contracts.

(*b*) Net Income of the Company $121,748,729 for 1934 and $137,456,776 for 1933 exceeds by $10,581,175 and $37,114,901, respectively, the Company's proportion of the consolidated Bell System Net Income for these years as shown on page 15*. The Net Income figures of the Company, by itself, include dividend revenues paid in part by some of the affiliated companies from their previously accumulated surplus earnings and do not take into account the Company's proportion of the undivided profits or deficits for the year (after dividends, if any) of associated and other affiliated companies. No dividends were received from the Western Electric Company, Inc., in either year, that company, including its subsidiaries, having a net deficit for 1934 of $7,751,548 and for 1933 of $13,772,504.

C. A. HEISS,
Comptroller.

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AMERICAN TELEPHONE AND TELEGRAPH CO.

CERTIFICATE OF AUDIT

New York, N. Y., February 8, 1935

American Telephone and Telegraph Company,
195 Broadway, New York, N. Y.

We have made an audit of the accounts of American Telephone and Telegraph Company for the year ended December 31, 1934. We examined or tested the accounting records of the Company and supporting evidence, obtained information and explanations from officers and employees of the Company and reviewed the Company's accounting methods, but we did not examine the details of all transactions.

We have reviewed reports for 1934 rendered to American Telephone and Telegraph Company by the 24 associated telephone companies and its other affiliated companies. Based on the income statements of these companies, the net income of $121,748,729 shown by the Company's Income Statement for 1934 exceeds by $10,581,175, for reasons explained in note (*b*) thereon, the net income of the Company on a consolidated basis. We have not, however, audited the accounts for 1934 of affiliated companies other than six of the associated telephone companies.

In our opinion, the balance sheet of the Company as at December 31, 1934 (pages 20* and 21*), and its income statement for the year 1934 (page 22 ⌀) subject to the explanation in the preceding paragraph, set forth correctly the financial position of American Telephone and Telegraph Company at that date and the results of its operations for the year 1934.

LYBRAND, ROSS BROS. & MONTGOMERY.

INVESTMENTS IN ASSOCIATED AND OTHER COMPANIES AT DECEMBER 31, 1934

	Capital Stocks(a)			*Notes and Advances*
Associated Companies	*Par Value of Holdings* $	*Per Cent. of Total Outstanding*	*Book Value (Cost)* $	*Face Value* $
New England Tel. & Tel. Co.	87,094,200	65.31	92,045,721	23,750,000
Southern New England Tel. Co.	13,337,400	33.34	13,649,213	6,350,000
New York Tel. Co.	421,300,000	100.00	444,280,335	24,400,000
New Jersey Bell Tel. Co.	120,395,200	100.00	134,062,384	34,700,000
Bell Tel. Co. of Pennsylvania	110,000,000	100.00	116,316,050	8,850,000
Diamond State Tel. Co.	5,000,000	100.00	5,700,000	130,000
Chesapeake & Potomac Tel. Co.	18,000,000	100.00	19,000,000	3,570,000
Chesapeake & Potomac Tel. Co. of Balt. City	30,000,000	100.00	31,467,862	1,300,000
Chesapeake & Potomac Tel. Co. of Va. ..	18,000,000	100.00	18,000,000	4,150,000
Chesapeake & Potomac Tel. Co. of West Va.	16,200,000	100.00	16,200,000	2,700,000
Southern Bell Tel. & Tel. Co.	124,998,700	99.99	126,815,773	—
Ohio Bell Tel. Co.	129,999,600	99.99	130,041,898	—
Cincinnati & Suburban Bell Tel. Co. ..	8,169,150	29.72	8,732,568	—
Michigan Bell Tel. Co.	109,987,607	99.99	110,400,210	25,599,820
Indiana Bell Tel. Co.	32,999,100	99.99	33,585,586	7,214,366
Wisconsin Tel. Co...	40,000,000	100.00	43,223,835	2,000,000
Illinois Bell. Tel. Co.	148,948,200	99.30	154,428,999	—
Northwestern Bell Tel. Co.	95,000,000	100.00	96,039,490	2,399,696
Southwestern Bell Tel. Co.	172,998,800	99.99	176,251,878	—
Mountain States Tel. & Tel. Co.	34,987,500	72.82	36,362,463	13,050,000
Pacific Tel. & Tel. Co.	153,919,900	85.27	149,847,217	6,050,000
Pacific Tel. & Tel. Co. (Preferred)	64,095,700	78.17	55,999,180	—
Total Book Value (Cost)			$2,012,450,662	$166,213,882
Other Companies				
Bell Telephone Laboratories, Inc.	50,000	(*b*) 50.00	50,000	3,075,000
Bell Telephone Securities Company ..	1,000,000	100.00	1,000,000	—
Bell Telephone Company of Canada ..	18,749,800	24.22	18,854,783	—
Cuban American Tel. & Tel. Co.	432,500	50.00	162,500	—
Cuban American Tel. & Tel. Co. (Preferred)	340,000	50.00	340,000	—
Western Electric Co., Inc.(no par value) ..	(*c*) 5,950,736	99.18	143,845,610	—
195 Broadway Corporation	5,500,000	100.00	5,515,000	(*d*) 16,275,000
Eastern Tel. & Tel. Co. (Canada)	75,000	100.00	75,000	1,475,000
Transpacific Communication Co., Ltd. ..	25,000	100.00	25,000	802,000
Sundry	1,220	—	1,525	—
Total Book Value (Cost)			$169,869,418	$21,627,000

(*a*) Common stocks except as otherwise indicated.
(*b*) Remaining 50% owned by Western Electric Company, Inc.
(*c*) Number of shares.
(*d*) Includes real estate mortgages of $13,100,000

* Pages 295 and 296 in this book ⌀ Page 297 in this book

IMPERIAL OIL LIMITED

Auditor's Report to the Shareholders

To the Shareholders of
Imperial Oil Limited :

I have made an examination of the balance sheet of Imperial Oil Limited as at December 31, 1934, and of the statement of profit and loss and surplus for the year ending on that date. In connection therewith, I examined or tested accounting records of the company and other supporting evidence, and obtained all the information and explanations which I required ; I also made a general review of the accounting methods and of the operating and income accounts for the year, but I did not make a detailed audit of the transactions.

In accordance with section 114 of the Companies Act, 1934, I report that in the case of such subsidiary companies as incurred losses up to December 31, 1934, the parent company's proportion of such losses has been fully provided for in the books of Imperial Oil Limited and in the attached balance sheet. In the case of all other subsidiary companies, profits have only been taken credit for in the accounts of Imperial Oil Limited, and in the attached balance sheet, to the extent of dividends received by the parent company from such subsidiary companies ; such dividends received in 1934 and included as income in that year exceeded the company's proportion of the aggregate net profits of subsidiary companies for the year 1934 by $8,547,053.14 and to this extent were paid by these companies from surpluses previously earned.

Freights are billed from the transportation department to the refining and marketing departments at competitive market rates for such freights, and as a result there is an inter-departmental profit of approximately $575,000.00 included in the inventory valuation in the attached balance sheet.

In my opinion, based upon such examination, and subject to the remarks above, the attached balance sheet is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs as at December 31, 1934, according to the best of my information and the explanations given to me, and as shown by the books of the company.

C. B. Ware,
Auditor.

We have co-operated with Mr. C. B. Ware in the examination referred to in the foregoing report, and we concur in the opinion expressed in such report.

Price, Waterhouse & Co.
Chartered Accountants.

April 2, 1935.

BALANCE SHEET

Assets		$	$
CURRENT ASSETS:			
Cash on hand and in banks		13,945,636.67	
Dominion of Canada bonds and other marketable securities, including accrued interest.. .. .. .. (Market value $23,847,238.42)		23,078,931.92	
Trade accounts and bills receivable (*less* reserves)		10,085,692.43	
Other accounts receivable, including accrued interest on miscellaneous investments		1,423,427.45	
Inventories, determined and certified as to quantities and condition by responsible officers of the company:			
Crude oil and refined products (on basis of cost or market price of crude oil, whichever was lower)	$25,221,365.24		
Materials and supplies (at cost) ..	2,221,961.00	27,443,326.24	
			75,977,014.71
DEFERRED ACCOUNTS RECEIVABLE, MORTGAGES AND MISCELLANEOUS LOANS AND ADVANCES (LESS RESERVES)			5,347,621.25
MISCELLANEOUS INVESTMENTS:			
Bonds of other companies (at cost)		15,107,371.08	
Shares of other companies		353,301.25	
			15,460,672.33
INVESTMENT IN SUBSIDIARY COMPANIES:			
Investment in Shares		40,661,067.41	
Indebtedness of subsidiary companies		3,555,294.62	
			44,216,362.03
DEFERRED AND PREPAID CHARGES: ..			311,755.01
GOODWILL, PATENTS, COPYRIGHTS, TRADE MARKS AND LICENCES:			94.00
CAPITAL ASSETS:			
Land, buildings, plant, transportation and other equipment, (at cost) ..		118,694,997.25	
Less—Reserve for Depreciation ..		60,174,299.90	
			58,520,697.35
			$199,834,216.68

NOTE (1)—The figure at which the investment in shares of subsidiary companies is carried in the above balance sheet (after giving effect to revaluations shown under Capital Surplus) is substantially less than the aggregate of the cost thereof plus the proportion of the undistributed earnings of such subsidiary companies since acquisition applicable to such shares.

DECEMBER 31, 1934

Liabilities	$	$
CURRENT LIABILITIES:		
Accounts payable	2,491,186.61	
Amounts owing to subsidiary companies	1,124,445.25	
Reserve for income taxes and other accrued taxes in Canada	3,306,164.56	
		6,921,796.42
RESERVES:		
For fire, marine and other insurance ..	9,802,620.38	
For employees' annuities	8,168,090.37	
		17,970,710.75
CAPITAL AND SURPLUS:		
Capital Stock:		
Authorised—32,000,000 shares of no par value Issued and outstanding —26,919,871 shares	77,263,005.75	
Capital Surplus:		
Arising from revaluations (in 1915 and 1920) of investment in subsidiary company	15,264,192.26	
Earned Surplus, as per statement attached	82,414,511.50	
		174,941,709.51
		$199,834,216.68

Approved on behalf of the Board:
C. A. EAMES, *Director.*
R. V. LESUEUR, *Director.*

NOTE (2)—The company has provided $470,446.51 up to December 31, 1934, in accordance with the provisions of the Employees' Co-operative Investment Trust three-year plan expiring June, 1935.

NOTE (3)—The auditor's report to the shareholders appears on page 7* hereof.

* Page 299 in this book

IMPERIAL OIL LIMITED

STATEMENT OF SURPLUS FOR THE YEAR ENDING December 31, 1934

Particulars	$	*Earned Surplus* $	*Capital Surplus* $	*Total* $
Balances at January 1, 1934.. .. *Amount transferred to Capital Surplus, arising from revaluations (in 1915 and 1920) of investment in subsidiary company.		95,380,998.50	*15,264,192.26	110,645,190.76
Deduct—				
Amount transferred to reserve for employees' annuities, to increase that reserve to the amount required as disclosed by last actuarial calculation	5,124,622.39			
Expenditures prior to January 1, 1934, on exploration of properties in Western Canada found to be non-productive of oil	4,861,690.34			
Provision to bring plant and equipment, after adjustment of fixed assets and accumulated depreciation reserve, to basis of cost ..	1,880,943.47			
Adjustments in book values of investments in shares of subsidiary companies in respect of dividends received from surpluses existing in such subsidiary companies at dates of acquisition, revaluation of shares of subsidiary to basis of value shown by its balance sheet, and proportion of losses of subsidiary companies to Dec. 31, 1933	1,091,250.56			
Amounts written off miscellaneous investments	398,378.38			
Additional reserve provided for accounts receivable	500,000.00	13,856,885.14	—	13,856,885.14
		$81,524,113.36	$15,264,192.26	$96,788,305.62
Add—				
Net Profit for the year ending December 31, 1934 ..		25,771,653.69	—	25,771,653.69
		107,295,767.05	15,264,192.26	122,559,959.31
Deduct— Dividends Paid		24,881,255.55	—	24,881,255.55
Balances at December 31, 1934, carried to Balance Sheet ..		$82,414,511.50	$15,264,192.26	$97,678,703.76

IMPERIAL OIL LIMITED

STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDING DECEMBER 31, 1934

Particulars of Income		*Before Providing for Canadian Income Taxes* $	*Provision for Canadian Income Taxes* $	*Net Income after providing for all Income Taxes* $
FROM CANADIAN REFINING AND MARKETING OPERATIONS, after providing for all selling, administrative and general expenses	$9,929,977.20			
Less—Provision for depreciation ..	6,223,606.59	3,706,370.61	682,970.49	3,023,400.12
FROM TRANSPORTATION, after providing for all administrative and general expenses	2,131,838.42			
Less—Provision for depreciation ..	761,985.74	1,369,852.68	174,517.48	1,195,335.20
OTHER INCOME—				
Dividends from subsidiary companies, including dividends from subsidiaries whose activities are carried on outside of Canada, less losses of subsidiary companies for the year 1934		21,251,719.64	2,238,778.68	19,012,940.96
Interest on investments in bonds, loans, mortgages, etc., and other miscellaneous revenue		1,678,850.13	131,603.57	1,547,246.56
Profit on sale of investment securities		992,730.85	—	992,730.85
		$28,999,523.91	$3,227,870.22	
NET PROFIT FOR THE YEAR, CARRIED TO EARNED SURPLUS				$25,771,653.69

NOTE.—Dividends received from subsidiary companies, included in the above statement, exceed the company's proportion of the aggregate net profits of subsidiary companies for the year 1934 by $8,547,053.14.

INTERNATIONAL HARVESTER COMPANY

CONSOLIDATED BALANCE SHEET

Assets	$	$	$
CURRENT ASSETS—			
Cash		28,807,293.16	
Marketable Securities, at lower of cost or market:			
United States Government Obligations ..	15,130,094.36		
Federal Intermediate Credit Bank Debentures	6,540,577.00		
Other Marketable Securities	12,640,268.11	34,310,939.47	
Receivables:			
Dealers', Farmers', and Motor Truck Users' Notes	69,791,584.66		
Accounts Receivable	15,436,063.40		
	85,227,648.06		
DEDUCT:			
Reserves for Losses	15,044,910.06		
Net Receivables (including employes, $467,803)		70,182,738.00	
Inventories:			
Raw Materials, Work in Process, Finished Products, etc., at lower of cost or market ..	100,768,358.44		
DEDUCT:			
Inventory Reserve	8,500,000.00	92,268,358.44	225,569,329.07
OTHER INVESTMENTS (including $506,422 investments in Associated Companies)			8,812,062.32
DEFERRED CHARGES (*less* deferred credits, $375,432)			546,811.37
PROPERTY—			
Farm Implement Works and Twine Mills, Motor Truck and Tractor Plants, Branch Houses and Service Stations, Mines, Furnaces, Steel Mills, etc.		188,537,994.89	
DEDUCT:			
Reserves for Plant Depreciation		84,197,399.32	104,340,595.57
			$339,268,798.33

INCOME ACCOUNT FOR 1934

	$	$
Profit before charging Interest on Loans, Depreciation, etc.		20,856,619.11
DEDUCT—		
Interest on Loans	58,023.76	
Ore and Coal Depletion	43,482.67	
Plant Depreciation	6,745,581.28	
Special Maintenance	310,607.64	
Provision for Inventory Reserve	3,500,000.00	
Provision for Losses on Receivables	6,250,287.15	16,907,982.50
Profit for year 1934		$ 3,948,636.61

AND AFFILIATED COMPANIES

December 31, 1934

Liabilities	$	$
Current Liabilities—		
Accounts Payable:		
Current Invoices, Payrolls, Taxes, etc.	20,284,621.68	
Preferred Stock Dividend, payable March 1, 1935	1,440,818.75	
Common Stock Dividend, payable January 15, 1935	661,377.75	22,386,818.18
Reserves—		
Special Maintenance	12,332,019.27	
Development and Extension	2,015,657.00	
Fire Insurance	5,407,711.71	
Contingent	5,000,000.00	24,755,387.98
Preferred Stock—		
Authorized, 1,000,000 shares, $100 par value. Issued, 823,325 shares, *less* 6,601 shares in Treasury		81,672,400.00
Common Stock—		
Authorized, 6,000,000 shares, no par value. Issued, 4,409,185 shares, *less* 163,388 shares in Treasury		169,831,880.00
Earned Surplus		40,622,312.17
		$339,268,798.33

SURPLUS DECEMBER 31, 1934

	$	$
Balance at December 31, 1933		44,937,715.56
Add: Profit for year 1934		3,948,636.61
		48,886,352.17
Deduct:		
Cash Dividends:		
Preferred Stock at $7.00 per share	5,717,303.90	
Common Stock at 60c. per share	2,546,736.10	8,264,040.00
Earned Surplus at December 31, 1934		$40,622,312.17

INTERNATIONAL HARVESTER COMPANY

PROPERTY

	$	$
Balance at December 31, 1933		186,278,942.14
ADD—		
Capital Additions during 1934:		
Farm Implement Works and Twine Mills	760,420.79	
Motor Truck and Tractor Plants ..	2,612,827.80	
Branch Houses and Service Stations	544,609.99	
Mines, Furnaces, Steel Mills, etc. ..	420,508.50	4,338,367.08
		190,617,309.22
DEDUCT—		
Plant property sold, dismantled, or charged off	2,035,831.66	
Depletion of iron ore and coal ..	43,482.67	2,079,314.33
Balance at December 31, 1934, before deducting Reserves for Plant Depreciation		$188,537,994.89

RESERVES FOR PLANT DEPRECIATION

The annual deductions from earnings for plant depreciation provide for the impairment and consumption of the capital assets utilised in production and distribution. Such depreciation is based on rates established by recognised authorities and confirmed by experience in this industry.

	$
Balance at December 31, 1933	78,958,696.36
ADD—	
Provision for 1934	6,745,581.28
	85,704,277.64
DEDUCT—	
Depreciation on properties sold and dismantled ..	1,506,878.32
Balance at December 31, 1934	$84,197,399.32

WORKING CAPITAL

	$
CURRENT ASSETS—	
Cash	28,807,293.16
Marketable Securities, at lower of cost or market ..	34,310,939.47
Receivables, *less* reserves for losses	70,182,738.00
Inventories, *less* reserve	92,268,358.44
	225,569,329.07
DEDUCT—	
CURRENT LIABILITIES:	22,386,818.18
Working Capital at December 31, 1934	$203,182,510.89

AND AFFILIATED COMPANIES

RESERVES

SPECIAL MAINTENANCE:

These reserves provide for relining of blast furnaces, maintenance of docks and harbors, conversion of power systems, and other renewals and replacements.

	$
Balance at December 31, 1933	12,329,477.04
ADD—	
Provision for 1934	310,607.64
	12,640,084.68
DEDUCT—	
Relining, renewal and other charges during 1934 ..	308,065.41
Balance at December 31, 1934	$12,332,019.27

DEVELOPMENT AND EXTENSION:

Large expenditures are required in engineering research and in the development and improvement of all lines of power farming equipment to increase the efficiency of farm operations and reduce the cost of crop production. Expenditures for 1934 were charged to operating expenses.

Balance at December 31, 1934 .. .. $2,015,657

LOSSES ON RECEIVABLES:

This reserve provides for losses which may ultimately be sustained in the collection of Notes and Accounts Receivable.

	$	$
Balance at December 31, 1933		14,253,192.53
ADD—		
Provision from 1934 Earnings	6,250,287.15	
Amounts transferred from other Reserves accumulated out of prior years' earnings:		
Fire Insurance Reserve	5,000,000.00	
Collection Expense Reserve ..	3,500,000.00	14,750,287.15
		29,003,479.68
DEDUCT—		
Bad Debts charged off during 1934 (net)		13,958,569.62
Balance at December 31, 1934 ..		$15,044,910.06

INTERNATIONAL HARVESTER COMPANY

RESERVES—*continued*

FIRE INSURANCE:

Since 1905, the Company has carried a reasonable portion of its own fire insurance risks at Branch Houses and Motor Truck Sales and Service Stations. Modern methods of fire prevention and protection are rigidly enforced at all of the Company's properties. In view of the low loss experience, the Company has felt justified in transferring as of December 31, 1934, an amount of $5,000,000 from this reserve to Reserve for Losses on Receivables. The balance of $5,407,000 at December 31, 1934, provides ample protection for the limited risk which the Company assumes.

	$	$
Balance at December 31, 1933		10,210,177.75
ADD—		
Credit for 1934 from Regular Charges to Operations		231,296.14
		10,441,473.89
DEDUCT—		
Losses by Fire, etc., during 1934 ..	33,762.18	
Amount transferred to Reserve for Losses on Receivables	5,000,000.00	5,033,762.18
Balance at December 31, 1934 ..		$ 5,407,711.71

HASKINS & SELLS
Certified Public Accountants
HARRIS TRUST BUILDING, CHICAGO

March 4, 1935.

THE BOARD OF DIRECTORS,

INTERNATIONAL HARVESTER COMPANY:

We have made an examination of the consolidated balance sheet of International Harvester Company (a New Jersey corporation) and affiliated companies as of December 31, 1934, and of the related summaries of income and surplus for the year 1934. In connection with the financial statements of the companies operating in the United States and Canada, we made a review of the accounting methods, examined or tested, in a manner and to the extent we considered appropriate in view of the companies' systems of internal accounting control, accounting records of the companies and other supporting evidence, and made a general review of the operating and income accounts for the year, but we did not make a detailed audit of the transactions. We also made similar examinations of the accounts of the principal foreign affiliated companies. With respect to the foreign affiliated companies not examined by us and the records of notes and accounts receivable kept at branch houses not visited by us, we reviewed, respectively, annual reports of the foreign affiliated companies and branch house annual reports supplemented by reviews of periodic reports of the companies' traveling auditors; and the accounts of these foreign companies and branch houses are included in the accompanying statements on such basis.

AUDITORS' REPORT—*continued*

The inventories generally are based on physical inventories taken as of the close of the manufacturing or selling seasons and adjusted for the interim transactions from the inventory dates to the end of the year. The Fort Wayne and Springfield Works were not closed for inventory purposes, and the inventories at these two works are based partially on book records. The operating results of the selling companies are based on twelve-month periods ended November 30 or dates prior thereto. The net profits of selling companies operating in the southern hemisphere and gross profits of selling companies operating in the northern hemisphere, for the periods from the close of the selling seasons to December 31, are deferred and applied as reductions of the inventories.

Pending the stabilization of international exchange, foreign net current assets have been stated in terms of U. S. dollars on the basis of the rates used by the companies at December 31, 1932, which rates were the prevailing market rates at that date or slightly lower. This basis of valuing foreign net current assets results in a conservative determination of current foreign earnings not transferred to the United States and eliminates from the accounts all unrealized exchange appreciation and unrealized market recoveries of exchange write-downs made in 1932 and prior years. Profits arising from the conversion into U. S. dollars of foreign funds transferred to this country have been taken into earnings.

The minority interest in the capital and surplus of subsidiaries, relatively small in relation to the aggregate capital and surplus of subsidiaries, is included in the accounts payable. Net gains of relatively minor amount arising from transactions in the company's capital stock have been classified as a deferred credit and deducted from deferred charges. During the year 1934, the reserve for collection expenses, \$3,500,000, and \$5,000,000 of the fire insurance reserve were transferred to the reserve for losses on receivables.

In our opinion, subject to the foregoing, the accompanying balance sheet and related summaries of income and surplus fairly present, in accordance with accepted principles of accounting consistently followed by the companies, their financial condition at December 31, 1934, and the results of their operations for the year.

HASKINS & SELLS.

Financial Section of President's Report to the Shareholders for 1934

The following is the financial section of the President's report referred to by the Auditors and in the footnotes to the accounts. The remainder of the report is not reproduced in this book.

Your attention is directed in the accompanying financial statements to the fact that items are stated for convenience in terms of United States currency. Throughout the year all Canadian currency items have been converted into United States dollars on the basis of former parity. In converting other currencies to that medium, the general principles of exchange conversion in effect in 1932 and continued in 1933 have again been employed; i.e., the recording of the cost of property at the rates effective at the date of reorganization or subsequent acquisition and the providing of depreciation at former parity of exchange; investments in United States dollars at cost or less; inventories in United States dollars at cost or market, whichever is lower; other current asset and current liability items in United States dollars at closing rates December 31st, 1934; capital stock at former parity of exchange; debenture stock at the rates effective at the date of reorganization or subsequent issue. The net result of exchange adjustments for the year 1934 was a debit of $825,276.97. This amount is not reflected in income but has been charged to exchange reserve. Profits were converted at month-end exchange rates. Dividends were paid in U.S. dollars or equivalents thereof in sterling.

The note appearing under "Property Account" in the accompanying balance sheet sets forth the basis used in evaluation. Your Company was incorporated on July 25th, 1916 and in 1918 acquired all of the mining properties and plant formerly owned by The Canadian Copper Company (an Ohio corporation) and these properties are taken at cost measured by the par value of its stock which was issued to The International Nickel Company (New Jersey) for the stock of The Canadian Copper Company.

The Company's engineers discovered an additional ore body in the Creighton Mine and on the basis of their report a valuation considered by the Directors to be conservative was placed thereon. This valuation was entered upon the books of the Company in 1923 and credited to earned surplus and has been transferred to capital surplus as at December 31st, 1934. No additional value has been placed upon the books of the Company as a result of other discoveries of ore.

In 1925 the mining properties formerly owned by the British America Nickel Corporation, Limited were acquired and entered upon the books at cost.

In 1928 a plan of reorganization was consummated whereby your Company, previously a wholly-owned subsidiary of The International Nickel Company (New Jersey), became the parent Company by issuing its stock direct to the stockholders of the latter Company in exchange for their holdings. At the time of this reorganization there was no revaluation made of the assets.

Prior to its merger with your Company as at January 1st, 1929, the directors of The Mond Nickel Company, Limited, on the basis of the reports of that Company's engineers, made a revaluation of its mining properties and a substantial increase in valuation was entered upon the books of that Company. This increase was partly offset by the establishment of reserves for depreciation and obsolescence against its plants, which had the effect of reducing their value below previously recorded book value. In consolidation, these reserves have been applied against the respective plant properties and have not been included in the figures of the depreciation reserves in your Company's published accounts.

It is a general policy of your Company to capitalize all additions to property at their cost.

During 1934 additions to property account, less recoveries, amounted to $2,395,257.54, the amount written off for dismantlement was $302,853.98, leaving the net additions $2,092,403.56 as shown in the balance sheet. The total property account, after deducting reserves for depreciation of plants and depletion of ore, was $139,191,559.47 compared with $140,911,616.83 December 31st, 1933.

On reference to the balance sheet it will be seen that your Company's investment in Ontario Refining Company, Limited increased from $7,784,119.87 to $10,367,698.13. Your Company's return on this investment is treated as an adjustment of the refining tolls paid to that company for the

Net current assets were $40,1[illegible] at Dece[illegible] with $35,200,850.95 at December 31st, 1933. Inventories amounting to $20,683,443.36, carried mainly in Canada, Great Britain and the United States, also include stocks in other countries. Cash balances amounting to $18,789,023.24 represent mainly sterling and Canadian and United States dollar deposits in England, Canada and the United States.

The balance of the 5 per cent. debenture stock of The Mond Nickel Company, Limited and of the 6¼ per cent debenture stock of Henry Wiggin & Company, Limited outstanding June 1st, 1934 were retired on that date. This advance retirement entailed disbursement equivalent to $2,777,559.90 which included premium of $125,019.40. The 5½ per cent. mortgage debenture stock of The Mond Nickel Company, Limited (£1,089,908), which is subject to annual drawings at par, is redeemable in whole or in part, on three calendar months' notice, at any time prior to May 1st, 1936 at 103 per cent., and at any time thereafter prior to date of maturity, May 1st, 1957, at 102 per cent.

The balance in retirement system reserve at December 31st, 1933 was $3,479,335.13. There were provided and applied to the reserve $756,258.26 from profits and $254,159.03 from other reserves as mentioned in the second paragraph following. Disbursements for pensions, disabilities and death benefits were $197,188.97 leaving a balance of $4,292,563.45 at Dec. 31st, 1934.

The balance in exchange reserve at December 31st, 1933 amounted to $1,826,823.69. As already explained in this section the net result of exchange adjustments for the year was a debit of $825,276.97, which reduced the balance at December 31st, 1934 to $1,001,546.72.

The balance in insurance, contingent and other reserves at December 31st, 1933 amounted to $2,223,067.90. There was added $404,403.35, representing net provision for insurance $22,105.05, and net provision for miscellaneous contingencies $382,298.30. There was charged $611,090.77, representing additional tax payments for prior years $356,931.74, and transfer to retirement system reserve $254,159.03, leaving a balance in these reserves at December 31st, 1934 of $2,016,380.48. Of the additions ($404,403.35) there was provided from profits $280,922.76, and the balance, $123,480.59, represents transfers from investment reserves no longer required, and other miscellaneous adjustments.

The capital surplus as at December 31st, 1933 was $59,924,194.98. To this amount there has been transferred from the earned surplus $1,000,000.00 representing the valuation placed by the Directors on additional ore in the Creighton Mine to which reference has already been made in the third paragraph of this section. There was charged thereto the proportionate part of premium paid on debenture redemption applying to the period prior to 1929, $82,969.76, leaving a balance of capital surplus of $60,841,225.22 as at December 31st, 1934. Included in the figure of capital surplus at the beginning and end of the year is $11,664,133.55 representing the amount received for common stock in excess of the capital value assigned thereto, this amount being "distributable surplus" as defined by The Companies Act, 1934 of the Dominion of Canada.

The net operating income for 1934 was $23,808,610.32 from which were deducted $400,972.73 for interest (mainly on debenture stock), $4,115,314.90 for depreciation and depletion and $804,843.89 for retirement system, insurance and other reserves, leaving a net profit of $18,487,478.80 compared with $9,662,583.64 for 1933. After provision for preferred dividends there remained $16,553,580.05 or $1.13 per share on the 14,584,025 shares of common stock.

To the earned surplus as at December 31st, 1933, amounting to $22,767,570.30, there was added the net profit for 1934, $18,487,478.80. There were deducted therefrom the item of $1,000,000.00 already referred to in this section, the proportionate part of premium paid on debenture redemption applying to the period subsequent to 1928, $42,049.64, the preferred dividends for the year, $1,933,898.75 and the common dividends for the year, $7,289,084.50, leaving a balance of earned surplus of $30,990,016.21 as at December 31st, 1934.

On the opening page of this report reference is made to the fact that The Companies Act, 1934 of the Dominion of Canada calls for certain reclassifications in the form of your accounts. Minor rearrangements of the 1933 figures have accordingly been made in the accompanying financial statements

(Incorporated under the Laws
AND WHOLLY OWNED
CONSOLIDATED BALANCE
(Stated for convenience in terms

Assets	Dec. 31, 1934	Dec. 31, 1933 *(Reclassified.)**
PROPERTY ACCOUNT—	$	$
Balance as at beginning of year	171,458,769.60	171,242,663.54
Properties acquired in 1918 from a predecessor company are taken at cost measured by the par value of stock issued for stock of that company; an ore body discovery at value fixed by the Directors in 1923; properties formerly owned by The Mond Nickel Company, Limited at valuations made by its Directors prior to the merger of that company, January 1929; other items at cost.*		
Net Additions during year	2,092,403.56	216,106.06
	173,551,173.16	171,458,769.60
Deduct Reserves—		
Depreciation of Plants	25,826,267.85	23,034,334.20
Depletion	8,533,345.84	7,512,818.57
	34,359,613.69	30,547,152.77
	139,191,559.47	140,911,616.83
INVESTMENTS (at or below cost)—		
Ontario Refining Company, Limited (90% of Capital Stock, Dec. 31, 1934)	10,367,698.13	7,784,119.87
Whitehead Metal Products Co. of New York, Inc. (100% of Preferred Stock, 60% of Common Stock)	300,000.00	300,000.00
Advances	1,376,716.74	957,364.94
Other Investments (including 7 shares $100 par Preferred Stock and 5,856 shares Common Stock of The International Nickel Company of Canada, Limited carried by a subsidiary company at $32,669.33)	1,107,267.89	1,123,624.67
	13,151,682.76	10,165,109.48
CURRENT ASSETS—		
Inventories of Metals and Supplies at cost or market, whichever is lower, as determined and certified by the responsible officials	20,683,443.36	18,720,125.42
Accounts and Bills Receivable	4,494,538.27	5,886,424.45
Ontario Refining Company, Limited	606,442.04	—
Government and Other Securities (at or below cost) (Market December 31, 1934, $1,928,034.00)	1,766,095.40	1,530,401.07
Cash on Hand and in Banks (including special Demand and Time Deposits)	18,789,023.24	14,085,610.64
	46,339,542.31	40,222,561.58
CHARGES TO FUTURE OPERATIONS—		
Insurance prepaid, etc...	71,098.45	95,478.60
	$198,753,882.99	$191,394,766.49

Approved on behalf of the Board of Directors:
CHARLES HAYDEN }
ROBERT C. STANLEY } *Directors.*

*Explained in the "Financial" section of the accompanying Report, pages 10 to 12ø.
ø Pages 310 and 311 of this book.

AUDITORS' REPORT TO SHAREHOLDERS OF THE

We have made an examination of the consolidated balance sheet of The
subsidiary companies as at December 31, 1934 and of the consolidated state
with, we examined or tested accounting records and other supporting evidence;
and income accounts for the year, but we did not make a detailed audit of the

We report that we have obtained all the information and explanations we
attached consolidated balance sheet at December 31, 1934 is properly drawn
sistently maintained by the companies during the year under review, a true
Nickel Company of Canada, Limited and its wholly owned subsidiary com
us, and as shown by the books of the companies, and that the related state

Pursuant to Section 114 of The Companies Act, 1934, we report that
have been properly dealt with in the attached accounts.

We have also reviewed the "Financial" section of the President's report,
ments contained therein are correct.

of the Dominion of Canada)
SUBSIDIARY COMPANIES
SHEET DECEMBER 31, 1934
of United States currency)*

Liabilities	Dec. 31, 1934	Dec. 31, 1933 (*Reclassified.**)
CAPITAL STOCK—	$	$
7% Cumulative Preferred—Authorized $27,679,900 ($100 and $5 par value) ..	27,627,825.00	27,627,825.00
(Redeemable at the Company's option at 120% of par value) ..		
Common Stock—without nominal or par value 14,584,025 shares Authorized 15,000,000 shares ..	60,766,770.84	60,766,770.84
	88,394,595.84	88,394,595.84
DEBENTURE STOCK OF BRITISH SUBSIDIARIES—		
5½% Mortgage Debenture Stock (£1,089,908, Dec. 31, 1934) ..	5,050,914.24	5,180,210.02
5% First Mortgage Debenture Stock (£375,000) ..	—	1,822,500.00
6¼% Mortgage Debentures (£155,300) ..	—	754,758.00
	5,050,914.24	7,757,468.02
CURRENT LIABILITIES—		
Accounts Payable and Pay Rolls ..	2,648,302.31	2,455,978.17
Ontario Refining Company, Limited ..	—	213,513.58
Taxes Accrued, including $1,875,381.83 Canadian Taxes ..	3,034,863.84	1,868,744.20
Reserved for Preferred Dividend payable February 1, 1935 ..	483,474.68	483,474.68
	6,166,640.83	5,021,710.63
RESERVES—		
Retirement System Reserve ..	4,292,563.45	3,479,335.13
Exchange Reserve ..	1,001,546.72	1,826,823.69
Insurance, Contingent and Other Reserves ..	2,016,380.48	2,223,067.90
	7,310,490.65	7,529,226.72
SURPLUS—		
Capital Surplus (including $11,664,133.55 representing amount received for common stock in excess of the capital value assigned thereto. Such amount is "distributable surplus" as defined by The Companies Act, 1934, Canada) ..	60,841,225.22	59,924,194.98
Earned Surplus ..	30,990,016.21	22,767,570.30
	91,831,241.43	82,691,765.28
	$198,753,882.99	$191,394,766.49

NOTE.—The auditors' report to the shareholders appears on page seventeen hereof. Ø
Ø Printed on this page in this book.

INTERNATIONAL NICKEL COMPANY OF CANADA, LIMITED
International Nickel Company of Canada, Limited and its wholly owned
ments of profit and loss and surplus for the year 1934. In connection there-
we also made a general review of the accounting methods and of the operating
transactions.
have required and that, in our opinion, based upon such examination, the
up so as to exhibit, in accordance with accepted principles of accounting con-
and correct view of the state of the combined affairs of The International
panies according to the best of our information and the explanations given to
ments of income and surplus fairly present the results of operations for the year.
profits and losses of non-consolidated subsidiary companies, in our opinion,

to which reference is made in the balance sheet, and, in our opinion, the state-

PRICE, WATERHOUSE & Co.,

THE INTERNATIONAL NICKEL COMPANY OF CANADA, LIMITED

AND WHOLLY OWNED SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED PROFIT AND LOSS
For the Year ended December 31, 1934

(Stated for convenience in terms of United States currency)*

	1934	1933 (*Reclassified**)
	$	$
Earnings of all Properties, after deducting Manufacturing, Selling Expense, Ordinary Repairs and Maintenance	27,672,126.39	16,707,647.06
Other Income—		
From Investments, including interest on deposits, etc.	312,444.80	198,226.46
Miscellaneous	12,519.27	52,293.96
	324,964.07	250,520.42
Total Income	27,997,090.46	16,958,167.48
Deduct—		
Administrative and Head Office Expense (including $38,255.00 Directors' Fees)	1,384,870.05	1,072,096.16
Provision for Income and Franchise Taxes (including $1,838,789.22 Canadian Income Taxes)	2,803,610.09	1,504,743.95
	4,188,480.14	2,576,840.11
Net Operating Income	23,808,610.32	14,381,327.37
Deduct—		
Interest Paid and Accrued (including $386,535.40 interest on funded indebtedness)	400,972.73	449,762.88
Provision for—		
Depreciation and Depletion	4,115,314.90	3,551,653.32
Retirement, Insurance and Other Reserves	804,843.89	717,327.53
	5,321,131.52	4,718,743.73
Net Profit for the Year Carried to Surplus	$18,487,478.80	$ 9,662,583.64
STATEMENT OF CONSOLIDATED EARNED SURPLUS		
Earned Surplus Beginning of Year	22,767,570.30	14,688,559.89
Net Profit as Above	18,487,478.80	9,662,583.64
Adjustment for Taxes	—	350,325.52
	41,255,049.10	24,701,469.05
Amount Transferred to Capital Surplus*	1,000,000.00	—
Premium Paid on Debenture Redemption	42,049.64	—
	1,042,049.64	—
	40,212,999.46	24,701,469.05
Dividends—		
Preferred	1,933,898.75	1,933,898.75
Common	7,289,084.50	—
	9,222,983.25	1,933,898.75
Earned Surplus end of Year	$30,990,016.21	$22,767,570.30

Note.—The figures above do not include $90,170.25 representing your Company's equity in undistributed profits of non-consolidated subsidiary companies.

THE INTERNATIONAL NICKEL COMPANY OF CANADA, LIMITED

AND WHOLLY OWNED SUBSIDIARY COMPANIES

QUARTERLY STATEMENTS OF CONSOLIDATED PROFIT AND LOSS
FOR THE YEAR ENDED DECEMBER 31, 1934
(Stated for convenience in terms of United States currency)*

	First Quarter March 31, 1934 $	Second Quarter June 30, 1934 $	Third Quarter Sept. 30, 1934 $	Fourth Quarter Dec. 31, 1934 $
	AS ISSUED			
EARNINGS	7,463,766.49	7,368,724.90	6,116,395.80	6,723,239.20
OTHER INCOME	44,048.81	91,124.88	108,234.18	81,556.20
TOTAL INCOME	7,507,815.30	7,459,849.78	6,224,629.98	6,804,795.40
ADMINISTRATIVE AND GENERAL EXPENSE	352,238.34	374,867.50	318,533.43	339,230.78
PROVISION FOR TAXES	768,936.16	826,638.22	660,154.63	547,881.08
	1,121,174.50	1,201,505.72	978,688.06	887,111.86
NET OPERATING INCOME .. .	6,386,640.80	6,258,344.06	5,245,941.92	5,917,683.54
Deduct—				
Interest Paid and Accrued ..	119,029.09	104,133.76	76,308.29	101,501.59
Provision for Depreciation, Depletion and Other Reserves ..	1,218,335.80	1,190,843.82	1,164,467.69	1,346,511.48
	1,337,364.89	1,294,977.58	1,240,775.98	1,448,013.07
NET PROFIT CARRIED TO SURPLUS	$5,049,275.91	$4,963,366.48	$4,005,165.94	$4,469,670.47
QUARTERLY STATEMENTS OF CONSOLIDATED EARNED SURPLUS				
EARNED SURPLUS BEGINNING OF PERIOD	22,767,570.30	25,875,554.62	28,855,579.87	30,190,545.77
NET PROFIT AS ABOVE .. .	5,049,275.91	4,963,366.48	4,005,165.94	4,469,670.47
	27,816,846.21	30,838,921.10	32,860,745.81	34,660,216.24
AMOUNT TRANSFERRED TO CAPITAL SURPLUS*	—	—	—	1,000,000.00
PREMIUM PAID ON DEBENTURE REDEMPTION	—	42,049.64	—	—
	27,816,846.21	30,796,871.46	32,860,745.81	33,660,216.24
DIVIDENDS—				
Preferred	483,474.69	483,474.69	483,474.69	483,474.68
Common	1,457,816.90	1,457,816.90	2,186,725.35	2,186,725.35
	1,941,291.59	1,941,291.59	2,670,200.04	2,670,200.03
EARNED SURPLUS END OF PERIOD ..	$25,875,554.62	$28,855,579.87	$30,190,545.77	$30,990,016.21

*Explained in the "Financial" section of the accompanying Report, pages 10 to 12.⌀
⌀ Pages 310 and 311 of this book.

THE NATIONAL CASH REGISTER COMPANY

CONSOLIDATED INCOME AND SURPLUS ACCOUNT

For the Year Ending December 31, 1934

	$	$
Sales (including sales of foreign subsidiary companies and branches converted at current rates of exchange as at December 31, 1934)		30,024,326.47
Profit from operations before provision for Income Taxes for the year ending Dec. 31, 1934, including profits and losses of foreign subsidiary companies and branches, and after deducting depreciation on plant and equipment amounting to $1,012,849.62		1,726,504.95
Miscellaneous Income (net)		14,340.15
Together		1,740,845.10
Special Deductions for Foreign Exchange Valuations	333,251.08	
Provisions for Income Taxes (Domestic and Foreign)	291,962.73	625,213.81
Net Profit for the year		1,115,631.29
Earned Surplus, January 1, 1934 ..	2,312,534.71	
Deduct—Adjustment of earned surplus of the German subsidiary company at January 1, 1934, arising through acquisition of minority interest by the Krupp company	180,314.41	2,132,220.30
Together		3,247,851.59
Dividends		610,558.32
Earned Surplus per Balance Sheet December 31, 1934		$2,637,293.27

CAPITAL SURPLUS ACCOUNT at December 31, 1934

	$
Capital Surplus, January 1, 1934.. ..	5,858,013.24
Deduct—Adjustment of capitalized surplus of the German subsidiary company arising through acquisition of minority interest by the Krupp company	195,946.84
Capital Surplus per Balance Sheet December 31, 1934	$5,662,066.40

THE NATIONAL CASH REGISTER COMPANY

COMBINED STATEMENT OF ASSETS AND LIABILITIES OF FOREIGN SUBSIDIARY COMPANIES AND BRANCHES

AS AT DECEMBER 31, 1934

Assets	Total companies and branches $	German Company $	Other companies and branches $
Cash	1,011,317.21	360,401.06	650,916.15
Customers' accounts receivable *less* reserves	6,325,919.36	1,164,999.50	5,160,919.86
Agents' balances and miscellaneous accounts receivable *less* reserves	690,425.93	176,062.12	514,363.81
Inventories of registers, raw materials, supplies and repair parts (after deducting inter-company profit) ..	4,408,211.14	1,512,102.51	2,896,108.63
Total current assets	12,435,873.64	3,213,565.19	9,222,308.45
Deferred charges	1,341,817.10	747,749.36	594,067.74
Property, plant and equipment (*less* depreciation reserves of $1,098,347.60)	1,487,626.28	911,975.67	575,650.61
Total Assets	$15,265,317.02	$4,873,290.22	$10,392,026.80

Liabilities and Reserves	$	$	$
Notes payable to banks (guaranteed by the parent company)	708,071.61	—	708,071.61
Accounts payable, trade and miscellaneous	644,053.18	154,198.05	489,855.13
Agents' balances and prospective commissions ..	554,643.13	146,880.97	407,762.16
Provision for taxes, insurance, etc.	828,232.30	62,720.00	765,512.30
Customers' deposits	278,088.00	40,508.44	237,579.56
Total current liabilities	3,013,088.22	404,307.46	2,608,780.76
Serial payments (see note)	543,428.00	344,960.00	198,468.00
General reserve	809,931.60	275,584.72	534,346.88
Total liabilities and reserves	4,366,447.82	1,024,852.18	3,341,595.64
Balance	10,898,869.20	3,848,438.04	7,050,431.16
Minority interest of the Krupp company in the German company	763,464.67	763,464.67	—
Net assets applicable to Dayton company's interest ..	10,135,404.53	$3,084,973.37	$7,050,431.16
Deduct—Reserve for contingencies	3,150,000.00		
Balance of net assets, per balance sheet	$6,985,404.53		

NOTE.—Includes $344,960.00 representing eight years' dividends, beginning in 1936, guaranteed to the minority interest by the parent company.

VALUED IN UNITED STATES DOLLARS

Property accounts at dollar cost less depreciation. Inventories at dollar cost after deducting inter-company profit reserves, and all other items at rates of exchange as at December 31, 1934, except those of the German subsidiary which were valued at the year end rate less 39.25%, the discount rate on German blocked marks.

THE NATIONAL CASH

CONSOLIDATED BALANCE

Assets	$	$
CURRENT ASSETS—		
Cash in Bank and on Hand	2,359,470.95	
Customers' accounts receivable; less reserves:		
Installment accounts (customers) $7,732,133.66		
Other accounts (customers) 1,049,532.82	8,781,666.48	
Agents' balances and miscellaneous accounts receivable less reserves ..	928,388.71	
Inventories at cost or market, whichever is lower (certified to by officials of the Company as to quantity and condition)	8,155,016.55	
		20,224,542.69
PREPAID INSURANCE, ETC.		195,812.66
INVESTMENT IN FOREIGN SUBSIDIARY COMPANIES AND BRANCHES, as per statement attached		6,985,404.53
OTHER INVESTMENTS (Including 36,000 shares of Company's Common Stock, at $293,869.58 cost, under option to Chairman of the Board at cost plus 4% interest less dividends)		535,117.52
PROPERTY, PLANT AND EQUIPMENT, at book values, less depreciation reserves of $6,611,731.12		8,229,790.89
PATENTS, GOODWILL AND OTHER INTANGIBLE ASSETS		1.00
		$36,170,669.29

AUDITORS'

To THE STOCKHOLDERS OF THE NATIONAL CASH REGISTER COMPANY:

As auditors elected at the annual meeting of the stockholders April 11, National Cash Register Company and its domestic subsidiary company as at and branches as at December 31, 1934, and the consolidated statement of subsidiary companies and branches. In connection therewith we examined or company and other supporting evidence, and were furnished with properly obtained information and explanations from officers and employees; we also income accounts for the year, but we did not make a detailed audit of all the

In our opinion, based upon such examination, the accompanying con the combined statement of assets and liabilities of foreign subsidiary fairly present, in accordance with accepted principles of accounting con under review, its position at December 31, 1934, and the combined results of

56 Pine Street, New York, N.Y. *March* 18, 1935

REGISTER COMPANY

SHEET, DECEMBER 31, 1934

Liabilities	$	$
CURRENT LIABILITIES—		
Notes payable	394,492.28	
Accounts payable, trade and miscellaneous	848,837.51	
Agents' balances and prospective commissions	1,007,545.02	
Dividends payable January, 1935 ..	203,519.55	
Accrued taxes	339,443.43	
Customers' deposits	90,557.88	
		2,884,395.67
RESERVES for contingencies		566,913.95
CAPITAL AND SURPLUS—		
Represented by:		
1,628,000 shares of common stock without par value outstanding: Authorized but not issued 400,000 shares of Common "B" stock which cannot be issued unless so ordered by a majority in interest of the stockholders of the Company.		
Capital	24,420,000.00	
Capital Surplus	5,662,066.40	
Earned Surplus	2,637,293.27	
		32,719,359.67
Contingent Liabilities: Guaranteed bank credits of approximately $100,000. Notes payable by Subsidiary Companies guaranteed by the parent company $708,071.61 (see attached statement of Foreign Subsidiary Companies' Assets and Liabilities).		
		$36,170,669.29

CERTIFICATE

1934, we have made an examination of the consolidated balance sheet of The December 31, 1934, the combined statement of assets of foreign subsidiaries income and surplus for the year 1934, including the operations of foreign tested accounting records of the Company and its domestic subsidiary authenticated returns from foreign subsidiary companies and branches. We made a general review of the accounting methods and of the operating and transactions.

solidated balance sheet of the Company and its domestic subsidiary company, companies and branches, and the related statement of income and surplus, sistently maintained by the Company and its subsidiaries during the year operations for the year.

PRICE, WATERHOUSE & CO.

UNITED STATES STEEL CORPORATION AND SUBSIDIARY COMPANIES

BALANCE SHEET, STATEMENTS OF ACCOUNTS AND STATISTICS

The consolidated general balance sheet and the statements of accounts and statistics presented in this annual report comprehend the combined results for the United States Steel Corporation and its subsidiary companies, except that balances due between affiliated companies have been omitted from both the assets and the liabilities. Several companies a majority of whose stock only was owned and which were previously excluded have been brought into the consolidated balance sheet this year to observe uniformity in method of including partly owned subsidiaries, also the proportion of assets and liabilities applicable to the minority interest of stock of Pittsburg, Bessemer & Lake Erie R. R. Company as stated on page 7.* The net current assets of foreign subsidiaries are included in the consolidated balance sheet on a basis not in excess of the equivalent exchange value at December 31, 1934, expressed in United States dollars.

The gross Property Investment Account, inclusive of Intangibles, is stated in the assets as shown by the consolidated balance sheet, based on the valuations represented by capital stock and bonds of the Corporation issued for acquirement of the subsidiary companies and cash, plus cash outlays made for additional property acquired since the organization of the Corporation, and less (*a*) the sum of $508,302,500 written off for Intangible values, as heretofore shown in previous annual reports, and (*b*) credits for investment value or cost of property sold, retired or otherwise disposed of. In addition, as shown in table on page 16†, the sum of $833,232,095 has been provided from income for account of accrued depletion, depreciation, obsolescence and amortization of the present gross investment value or cost at which existing property is carried.

The accounts of United States Steel Corporation and of the subsidiary companies for the year 1934 have been audited by Price, Waterhouse & Co., the independent auditors selected for this purpose by the stockholders at the annual meeting held April 2, 1934. The independent auditors' report to the stockholders is printed below.ø

*Not reproduced in this book.
†Page 326 in this book.
øPage 321 in this book.

UNITED STATES STEEL CORPORATION AND SUBSIDIARY COMPANIES

AUDITORS' REPORT TO STOCKHOLDERS

New York, *March* 5, 1935

To THE STOCKHOLDERS OF THE UNITED STATES STEEL CORPORATION:

As auditors elected at the annual meeting of stockholders held on April 2, 1934, we have made an examination of the consolidated balance sheet of the United States Steel Corporation and its subsidiary companies as at December 31, 1934, and of the consolidated income account, condensed general profit and loss account, and statement of surplus for the year 1934. In connection therewith, we examined or tested accounting records of the corporation and its subsidiaries and other evidence, including confirmation of cash and securities by inspection of certificates from the depositaries, and obtained information and explanations from the officers and employes of the corporation and its subsidiaries; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of all transactions.

In our opinion, based upon such examination, the expenditures charged to the gross property investment during the year cover actual additions and extensions; the provisions for depreciation and depletion have been computed under the same general plan observed in previous years and appear to be reasonable, but are subject to possible adjustment upon completion of an analysis of investment in depreciable property now in progress; the valuations of stocks of material and supplies on hand (as shown by inventories certified by responsible officials) have been made at cost or market prices, whichever were lower; proper provision has been made for bad and doubtful receivables and for all ascertained liabilities, and the accompanying balance sheet and related income account, condensed general profit and loss account and statement of surplus fairly present, in accordance with acceptable principles of accounting consistently maintained by the companies during the year under review, the position of the United States Steel Corporation and its subsidiary companies on December 31, 1934, and the combined results of operations for the year.

PRICE, WATERHOUSE & CO.

CONSOLIDATED GENERAL BALANCE

Assets	$	$
PROPERTY INVESTMENT ACCOUNTS—		
Properties Owned and Operated by the Several Companies, per Table on page 16*		
Balance of this account as of December 31, 1934, less Depletion, Depreciation and Amortization Reserves ..		1,626,143,781.60
MINING ROYALTIES—		
Mining Royalties on unmined ore ..		8,228,864.26
DEFERRED CHARGES (Applying to future operations of the properties)—		
Advanced Mining and other operating Expenses and Charges ..	1,735,305.41	
Discount on Subsidiary Companies' Bonds sold (net)	198,428.46	
		1,933,733.87
INVESTMENTS—		
Outside Real Estate and Investments in Sundry Securities, including Real Estate Mortgages—less reserves	8,503,396.22	
House and Land Sales Installment Contracts and Mortgages under Employes' Home-owning and other Property Sales Plans—less reserves	7,854,392.71	
		16,357,788.93
GENERAL AND RESERVE FUND ASSETS—		
Cash resources held by Trustees account Bond Sinking Funds	437,652.74	
(Trustees also hold $13,349,000.00 of redeemed bonds, not included as liabilities in this Balance Sheet.)		
Cash Deposits held by Trustees for payment of matured and called Bonds unpresented, and for the outstanding U.S. Steel 50-year non-callable series, 5% Bonds, aggregating for all $285,000.00 par value (see contra)	348.450.00	
U.S. Steel Corporation Common Stock held for account Employes' Stock Subscriptions (18,565 shares)—less reserves	539,377.00	
Insurance and Depreciation Fund Assets :		
Cash .. $4,674,822.08		
U.S. Government Securities (Market value $988,219.29) .. 975,663.94		
	5,650,486.02	
Forward	6,975,965.76	1,652,664,168.66

* Page 326 in this book.

SHEET, December 31, 1934

Liabilities	$	$
Capital Stocks—		
United States Steel Corporation :		
Common (Authorized 12,500,000 shares ; issued 8,703,252 shares)	870,325,200.00	
Preferred (Authorized 4,000,000 shares ; issued 3,602,811 shares)	360,281,100,00	
		1,230,606,300.00
Premiums on Common Stock—U.S. Steel Corporation		81,250,021.42
Subsidiary Companies Stocks not held by United States Steel Corporation (Book value of same)		5,815,133.43
Bonded, Mortgage and Debenture Debt Outstanding (see page 22* for detailed statement)—		
Bonds for Payment of which Cash is Specially held by Trustees :		
Matured and Called Bonds unpresented for payment ..	16,000.00	
U.S. Steel Corporation 50-year 5% Bonds, non-callable series	269,000.00	
	285,000.00	
All other Outstanding Issues of Subsidiary Companies (Maturities in 1935 aggregate $2,125,298.39) :		
Guaranteed by U.S. Steel Corporation	51,096,000.00	
Not Guaranteed by U.S. Steel Corporation	43,514,000.00	
Real Estate Mortgages and Purchase Money Obligations ..	768,688.84	
		95,663,688.84
Subsidiary Companies Purchase Money Obligations—Issued at various dates from 1913 to 1925, inclusive, in connection with acquirement of the fee title to certain ore properties previously held under mining leases and maturing over a period of 24 years—Guaranteed by United States Steel Corporation $15,207,541.22 ; not guaranteed $810,000.00 ; non-interest bearing $15,766,824.22 ; interest bearing $250,717.00		16,017,541.22
(Maturities in 1935 aggregate $965,860.06)		
Installment Deposits Under Employes Stock Subscription Plan		303,811.40
Forward		1,429,656,496.31

* Not reproduced in this book:

CONSOLIDATED GENERAL BALANCE

	$	$
Forward	6,975,965.76	1,652,664,168.66
Advances on Contracts and to Railroad Credit Corporation, also Cash and Receivables due from banks and others in process of reorganization or liquidation or payment of which may be delayed, less reserves	4,349,850.69	
		11,325,816.45
CURRENT ASSETS—		
Inventories, less credit for amount of Inventory values representing Profits earned by Subsidiary Companies on Inter-Company sales of products on hand in Inventories December 31, 1934, less reserves (See note opposite)	257,359,655.78	
Accounts Receivable—less reserves ..	32,721,408.41	
Bills Receivable—less reserves ..	4,110,809.77	
Sundry Marketable Securities, less reserves, including $53,913,951.72 U.S. Government Securities (Total market value $55,138,806.52) ..	54,625,722.97	
Cash Working Funds	752,128.94	
Time and other special Bank Deposits	2,865,941.95	
Cash (in hand and on deposit with Banks, Bankers and Trust Companies, subject to cheque).. ..	67,686,633.84	
		420,122,301.66
	$	2,084,112,286.77

SHEET, December 31, 1934—*contd.*

	$	$
Forward		1,429,656,496.31
CURRENT LIABILITIES—		
Current Accounts Payable and Pay Rolls (Includes $1,236,867.24 accrued for Personal Injury Claims payable after 1935)	22,306,348.52	
Accrued Taxes, not yet due, including reserve for Federal Income and Capital Stock Taxes	30,229,545.33	
Accrued Interest, Unpresented Coupons and Unclaimed Dividends	1,649,256.62	
Preferred Stock Dividend No. 135, payable February 27, 1935 ..	1,801,405.50	
		55,986,555.97
Total Capital and Current Liabilities		1,485,643,052.28
RESERVES AND SURPLUS—		
Contingent, Miscellaneous Operating and other Reserves		23,764,235.61
Insurance Reserves		46,129,371.00
Earned Surplus :		
Undivided Surplus of United States Steel Corporation and Subsidiary Companies ..	258,575,627.88	
Appropriated for and invested in Capital Expenditures	270,000,000.00	
		*528,575,627.88
	$	2,084,112,286.77

* This Balance of Surplus is subject to revision upon completion during 1935 of an analysis of Investment in Physical Property now in progress, involving also revision of depreciation accruals for previous years, as explained on Page 6†.

That part of the Surplus of Subsidiary Companies representing Profits on sales of materials and products to other subsidiary companies and on hand in latters' Inventories is, in this Balance Sheet, deducted from the amount of Inventories included under Current Assets.

Cumulative Preferred Dividends Unpaid at December 31, 1934 amount to 11¼% or $40,531,623.75.

† Not reproduced in this book

PROPERTY INVESTMENT ACCOUNT, DECEMBER 31, 1934

	$	$
Gross Fixed Property Investment Account, December 31, 1933, inclusive of balance of Intangibles but exclusive of Stripping and Mine Development and Structural Erection Equipment		2,430,633,694.65
Add Property Investment Accounts of controlled companies which have not heretofore been included in the consolidated organization's accounts (covers principally the minority proportion of the fixed assets of Pittsburg, Bessemer & Lake Erie R.R. Co.)		10,861,259.48
Net of sundry adjustments to Property Account in 1934		849,806.66
		2,442,344,760.79
Capital Expenditures on Property Account in 1934 (ex. Stripping and Development)	9,777,895.63	
Less Realizations from Sales and Dismantlement of property creditable Investment Account	1,511,100.47	
Net Expenditures for new construction in the year		8,266,795.16
		2,450,611,555.95
Less Amounts written off in year 1934 to Depletion and Depreciation Reserves for investment cost of natural resources exhausted and of improvements, equipment and facilities abandoned and retired		28,118,515.25
Gross Fixed Property Investment December 31, 1934		2,422,493,040.70
Less Balances in Depletion, Depreciation, Obsolescence, Amortization and Current Maintenance Reserves, at December 31, 1934, per table on page 27 †		833,232,095.97
Net Fixed Property Investment December 31, 1934		* 1,589,260,944.73
Investment in Stripping and Development at Mines and Structural Erection Equipment:		
Balance at December 31, 1933 ..	37,835,839.76	
Expended during the year 1934 ..	1,429,385.76	
	39,265,225.52	
Less Charged off in 1934 in operating expenses	2,382,388.65	
Balance December 31, 1934 ..		36,882,836.87
Total of Property Investment Account, December 31, 1934, inclusive of balance of Intangibles, per Consolidated General Balance Sheet		$ 1,626,143,781.60

* The reported balance of Net Fixed Property Investment at December 31, 1934, is subject to possible adjustment of depreciation accruals upon

UNITED STATES STEEL CORPORATION AND SUBSIDIARY COMPANIES—(cont.)

COMPARATIVE INCOME ACCOUNT

For the Years ending December 31, 1934 and 1933

	1934	1933	+ Increase — Decrease
Total Earnings (or Deficits)—	$	$	$
First Quarter	6,578,730.77*	4,045,065.43†	+ 10,623,796.20
Second Quarter	21,082,389.16*	4,631,962.77*	+ 16,450,426.39
Third Quarter	3,768,863.42*	11,816,832.61*	— 8,047,969.19
Fourth Quarter	3,788,375.71*	5,587,543.06*	— 1,799,167.35
Total for year	35,218,359.06*	17,991,273.01*	+ 17,227,086.05
Charges and Allowances for Depletion, Depreciation, Amortization and Obsolescence ..	44,121,258.91	43,195,117.06	+ 926,141.85
Deficit in the year	8,902,899.85	25,203,844.05	+ 16,300,944.20
Interest charges on bonds and mortgages outstanding:			
Of Subsidiary Companies	5,037,601.82	5,150,693.40	— 113,091.58
Of U. S. Steel Corporation	13,450.00	13,759.32	— 309.32
Deficit	13,953,951.67	30,368,296.77	+ 16,414,345.10
Proportion of overhead expenses of iron ore properties and transportation service not applied to inventory value of ore production	7,805,942.63	7,468,237.41	+ 337,705.22
Deficit	21,759,894.30	37,836,534.18	+ 16,076,639.88
Special income receipts including (for 1933) interest on Railroad Recapture payments refunded, less reserve for account of adjustments in connection with Employes' Stock Subscription Plan; and net adjustments of various accounts (cr.)	92,114.35	1,335,411.29	— 1,243,296.94
Net Deficit	21,667,779.95	36,501,122.89	+ 14,833,342.94
Dividends on U. S. Steel Corporation stock:			
Preferred, 2%	7,205,622.00	7,205,622.00	—
Total Deficit	$28,873,401.95	$43,706,744.89	+ $14,833,342.94

*Income.
†Deficit.

UNITED STATES STEEL CORPORATION

CONDENSED GENERAL PROFIT AND LOSS ACCOUNT

For the Year ending December 31, 1934

	$	$
Gross Receipts—Gross Sales and Earnings (see page 5) †		591,609,497.39
Operating Charges—		
Manufacturing and Producing Cost and Operating Expenses, including inventory price adjustments, ordinary maintenance and repairs and provisional charges of $44,121,258.91 by subsidiary companies for depletion, depreciation and obsolescence..	532,235,150.92	
Administrative, Selling and General Expenses, including appropriations under pension plan, but exclusive of general expenses of transportation companies included in item above ..	37,986,702.75	
Taxes (including reserve for Federal Income Taxes)	28,844,419.41	
Commercial Discounts	2,938,247.25	
		602,004,520.33
Deficit		10,395,022.94
Sundry Net Manufacturing and Operating gains and losses, etc. .. Dr.	879,332.84	
Idle Plant Expenses .. .. Dr.	2,694,390.03	
Rentals and Royalties received	1,493,984.25	
		Dr. 2,079,738.62
Total Manufacturing, Producing and Operating Net Deficit after deducting charges for depletion, depreciation and obsolescence..		12,474,761.56
Other Income and Charges		
Net Profits of properties owned, but whose operations (gross revenue, cost of product, expenses, etc.) are not classified in this statement	115,155.82	
Interest and Discount and Income from Sundry Investments	4,384,427.03	
		4,499,582.85
Balance (Forward)		7,975,178.71

† Not reproduced in this book.

* These profits have been earned by individual subsidiary companies on being locked up in the inventory value of materials held by the purchasing earnings of the combined organization. Such profits are so embraced only in

AND SUBSIDIARY COMPANIES—(cont.)

CONDENSED GENERAL PROFIT AND LOSS ACCOUNT—*(cont.)*

For the Year ending December 31, 1934

	$	$
Balance (Forward)		7,975,178.71
Net Balance of Subsidiaries' Inter-Company Profits not yet realized as cash assets*		Dr. 927,721.14
Deficit		8,902,899.85
Less, net balance of sundry receipts and charges account adjustments of various accounts (credit)		92,114.35
		8,810,785.50
Proportion of overhead expenses and taxes of the Lake Superior Iron Ore properties and Great Lakes Transportation service normally included in the value of the season's production of ore carried in Inventories, but which because of curtailment in tonnage of ore mined and shipped in 1934, is not so applied		7,805,942.63
Total Net Operating Loss ..		16,616,728.13
Interest charges on outstanding bonds and mortgages :		
Of Subsidiary Companies	5,037,601.82	
Of U. S. Steel Corporation ..	13,450.00	
		5,051,051.82
Total Deficit before charging Dividends		$21,667,779.95

inter-company sales made and service rendered to/for other subsidiaries but companies at close of 1934, are not to that date included as part of the reported the year in which they are converted into a cash asset.

UNITED STATES STEEL CORPORATION

SUMMARY OF THE FINANCIAL OPERATIONS OF ALL PROPERTIES

For Year ending December 31, 1934

NET RESOURCES	$	$
Net Deficit for the year before charging dividends		21,667,779.95
Less : Charges for Depletion, Depreciation and Obsolescence ($46,381,077.98) in excess of disbursements for account Bond Sinking Funds, Extraordinary Replacements and other sundry purposes ($883,356.39) ..		45,497,721.59
Net Income before making the charges above described ..		23,829,941.64
Net Receipts during the year for account Insurance, Contingent and sundry reserves		446,841.45
Net Receipts from liquidation of investments in Outside Real Estate, Land Sales Contracts, Employes' House Sales Contracts, Sundry Stocks, etc. ..		1,585,358.80
Sundry Miscellaneous receipts		332,858.44
Total Net Resources for the year		26,195,000.33
PAYMENTS MADE FOR THE FOLLOWING PURPOSES :		
Dividends declared for the year 1934 ..	7,205,622.00	
Additional Property, Construction and net outlays for Mine Stripping and Development	7,313,792.27	
Bonds, Mortgages and Purchase Money Obligations paid off	2,256,534.91	
Purchase Money Obligations (issued in acquirement of Ore Properties) paid ..	992,718.02	
Net additional payments for Advanced Mining Royalties	155,687.11	
Liquidation of liability for Employes' Stock Subscriptions in excess of installments received, by delivery of Stock and by cancellation of subscriptions ..	2,433,339.98	
		20,357,694.29
Excess of Net Resources for the year over foregoing amount of Payments made		$5,837,306.04

AND SUBSIDIARY COMPANIES—(cont.)

SUMMARY OF THE FINANCIAL OPERATIONS OF ALL PROPERTIES —(*cont.*)

FOR YEAR ENDING DECEMBER 31, 1934—(*cont*).

		$	$
The foregoing excess of net resources during the year is accounted for as follows :			
INCREASE IN CURRENT AND OTHER ASSETS, VIZ. :			
In Cash, General and Special Accounts		12,375,931.75	
In Inventories		4,745,004.01	
In Marketable Securities held in General and Reserve Funds and in Current Assets		5,134,295.61	
		22,255,231.37	
Less, Decrease :			
In Accounts and Bills Receivable ..	$7,743,080.49		
In Investments in U. S. Steel Common Stock held for account Employes' Stock Subscriptions	3,719,438.00	11,462,518.49	
		10,792,712.88	
Deduct : Net Increase in Current Accounts Payable, Accrued Taxes and Accrued Interest ..		4,955,406.84	
Balance, being Net Increase in Net Working and Other Assets during the year ..		$5,837,306.04	

SUMMARY OF NET PROFITS AND UNDIVIDED SURPLUS
April 1, 1901, to December 31, 1934

			$
Net Income after deducting all expenses incident to operations and allowances for depletion, depreciation, amortization and obsolescence, but exclusive of such allowances applied to U. S. Steel Corporation bond sinking funds			3,909,736,127.97
Deduct—			
Interest on outstanding Bonds, Mortgages and Securities of subsidiary companies		$253,643,721.43	
Interest on U. S. Steel Corporation bonds		576,717,310.22	
Premium and unamortized discount on bonds redeemed :			
On Subsidiary Companies bonds ..	$5,324,811.82		
On U. S. Steel Corporation bonds	56,944,650.96	62,269,462.78	892,630,494.43
Balance of Net Income			3,017,105,633.54
From the foregoing balance there were set aside the following :			
For expense (in year 1903) incurred in conversion of Preferred Stock and sale of Ten-Sixty Year 5% Bonds		6,800,000.00	
For permanent Pension Fund ..		8,000,000.00	14,800,000.00
Balance			3,002,305,633.54
Dividends for the period on U. S. Steel Corporation stocks were paid as follows :			
Preferred, 225%		834,155,252.91	
Common, 164½%		927,951,252.75	
Common, 40% Stock Dividend, June 1, 1927		203,321,000.00	1,965,427,505.66
Balance of Net Income			1,036,878,127.88
From this Surplus there has been appropriated to amortize cost to U. S. Steel Corporation of Stocks of Subsidiary companies in excess of their investment in tangible property			508,302,500.00
Total Earned Surplus, December 31, 1934 ..			$528,575,627.88
Division of above Total Earned Surplus			
Appropriated Surplus to cover Capital Expenditures ..			270,000,000.00
Undivided Surplus			258,575,627.88
			$528,575,627.88

Note.—Surplus of Subsidiary Companies at December 31, 1934, amounting to $24,010,984.70 and representing Profits accrued on sales of materials and products to other subsidiary companies and on hand in latters' inventories at that date, is not included in the Surplus of the consolidated organization, but is deducted from the amount of Inventories included under Current Assets in Consolidated General Balance Sheet.

UNITED STATES STEEL CORPORATION AND SUBSIDIARY COMPANIES—(cont.)

OTHER PUBLISHED STATEMENTS

In addition to the documents reproduced in this book, the Corporation appended to its directors' report for the year 1934 certain statements which, on account of space, are not reproduced here.

These statements are as follows :—

(1) Comparative tonnages produced of the various types of product for the years 1933 and 1934.

(2) Classified summary of amounts comprising Inventories figure shown in Consolidated Balance Sheet with comparative figures for 1933.

(3) Bonded and Mortgage Debt—

(*a*) Details of liabilities shown in Consolidated Balance Sheet.

(*b*) Details of changes during 1934.

(4) Classified summary of expenditure on maintenance, renewals and extraordinary replacements of principal classes of assets during 1934.

(5) Summaries of Reserves for—

(*a*) Depletion, depreciation, amortization and current maintenance.

(*b*) General Contingent, Miscellaneous and other operating Reserves.

(6) List of principal manufacturing subsidiaries and their products.

(7) Classified lists of properties

AKTIEBOLAGET ELEKTROLUX STOCKHOLM

PROFIT AND LOSS ACCOUNT

For the Year ended December 31st, 1934

	S.Kr.	S.Kr.
Gross Profit on Operations		7,202,884.06
Other Earnings—		
Net Interest Receivable including income from Marketable Securities	460,131.86	
Dividends from Subsidiary Companies ..	1,520,640.33	
Miscellaneous Income including recoveries of amounts previously written off ..	310,023.38	2,290,795.57
		9,493,679.63
Less—		
General and Administration Expenses ..	1,426,831.84	
Amortisation of Investment in Subsidiary Company	151,591.13	
Miscellaneous Amounts written off ..	13,428.82	1,591,851.79
Net Profit for the year 1934		7,901,827.84
Add—		
Unallocated Surplus from the year 1933	4,005,010.39	
Less : 4% Interim Dividend distributed in November 1934	2,400,000.00	1,605,010.39
Amount available	S.Kr.	9,506,838.23

Dividends from Subsidiary Companies are for the greater part taken up in the year in which the profits, from which the dividends are derived, have been earned.

AKTIEBOLAGET ELEKTROLUX STOCKHOLM—(cont.)

BALANCE SHEET

AS AT DECEMBER 31ST, 1934

Assets	S.Kr.	S.Kr.
Current Assets—		
Cash at Banks and on Hand	10,773,321.77	
Marketable Securities	267,916.09	
Due by Subsidiary Companies (net)	12,692,491.79	
Due by Associated Companies ..	5,153,790.00	
Çustomers' Outstandings	90,442.48	
Miscellaneous Receivables	246,714.87	
Dividends Receivable	1,520,640.33	
Stocks of Merchandise, *less* Reserves..	2,459.21	30,747,776.54
Shareholdings, etc., in wholly and partly owned Companies		43,553,372.33
Consortium Account and miscellaneous Investments		2,845,056.62
Deferred Charges		12,835.54
Furniture, Fixtures, etc.		1.00
Patents		1.00
	S.Kr.	77,159,043.03

Liabilities	S.Kr.	S.Kr.
Current Liabilities—		
Miscellaneous Accounts Payable ..	50,652.37	
Dividends Unclaimed	97,684.00	
Provision for Taxes and other Charges Accrued	1,503,868.43	
		1,652,204.80
Share Capital and Surplus—		
Share Capital:		
"A" Shares 60,000	6,000,000.00	
"B" Shares 540,000	54,000,000.00	
		60,000,000.00
Reserve Fund		6,000,000.00
Profit and Loss Account:		
Balance from the year 1933 ..	4,005,010.39	
Less: 4% Interim Dividend ..	2,400,000.00	
	1,605,010.39	
Net Profit for the year 1934 ..	7,901,827.84	
		9,506,838.23
	S.Kr.	77,159.043.03
Contingent Liabilities .. .. S.Kr.	281,100.00	

AKTIEBOLAGET ELEKTROLUX STOCKHOLM

CONSOLIDATED

AS AT DECEMBER

The attached Statement has been prepared on the same principles as in preceding years.

Conversion of Assets and Liabilities of Subsidiary Companies in countries with Gold Currencies has again been made at the parity of exchange to the Gold Krona. Other currencies have been converted at the exchange rates quoted at Stockholm at the close of 1934, or lower.

At the mean rates of exchange quoted at Stockholm at the end of 1934, the conversion of the foreign Assets and Liabilities would have resulted in an exchange surplus of S.Kr. 16,053,000.00 in addition to the surplus now shown.

The following remarks refer to the more important items in the attached statement of the Consolidated Balance Sheet as at December 31st, 1934, in so far as they are not covered by foregoing reference :—

Cash at Banks and on Hand S.Kr. 12,417,836.99.

Of this amount S.Kr. 10,342,456.60 was on deposit with Swedish banks, or in transit to Sweden, at the year-end. The cash total indicated shows an increase of S.Kr. 3,406,402.89 over the closing total for 1933. If consideration is given to the interim dividend payment of S.Kr. 2,400,000.00 in November last, the increase amounts to S.Kr. 5,806,402.89.

Marketable Securities S.Kr. 825,413.18.

Owing to the very uncertain tendency of the Stock and Share Markets the greater part of the Concern's holdings of Bonds and Shares, including the holding in Servel, Inc., New York, was sold in the early part of the year 1934.

With regard to the Servel holding the decision to sell was taken in consequence of the apparent impossibility of acquiring a majority holding in this Company without binding a far too large part of the Concern's capital, as well as owing to the fact that a minority holding was of no importance to the Concern's activities. The opportunity arose to sell the Shares without loss, and the selling price, at the time of sale, exceeded the market quotation for the Shares.

The sale consideration has partly been paid, and the remainder, in accordance with the sale agreement, falls due for payment during the current year and in 1936. Collateral security is held for the outstanding part of the consideration, which is included in the Balance Sheet under a special caption.

This transaction has no bearing whatsoever on the income in the form of royalty, which the Concern receives from Servel, Inc. on that Company's net sales of Refrigerators manufactured under the Platen-Munters' patents. During 1934 this royalty amounted to U.S. Dollars 306,497.76, giving S.Kr. 1,174,547.82, as compared with $182,173.99 or S.Kr. 798,078.65 in 1933. These amounts are subject to United States Federal Taxation for which provision has been made in the attached accounts.

The remaining holding of bonds, etc., appears in the Balance Sheet at a lower value than either cost or market on December 31st last.

Customers' Balances and Bills Receivable (net) S.Kr. 42,325,477.51.

The Customers' Outstandings, which for the greater part are based on hire purchase sales, have increased with the greater volume of turnover. In spite of this increase the total of the matured items unpaid is lower than for several years past and the bad and doubtful debts charged off during the year amounted to only slightly over one half of one per cent. The same principles as in preceding years have been applied in calculating the reserves set up.

AND SUBSIDIARY COMPANIES—(cont.)

BALANCE SHEET

31ST, 1934

Inventories, less Reserves S.Kr. 13,879,557.28.

No change has been made in the basis of valuation of the Stocks of Merchandise on Hand, viz. :—

Raw Materials and Supplies have been valued at purchase cost or current market prices, whichever was the lower at the date of the Balance Sheet.

Finished and semi-finished Goods have been priced at Factory Cost or lower, plus actual outlays for customs duty and freight on Stocks located outside Sweden.

Older models and slow moving parts have been written off.

The increased volume of Stock carried has already been remarked upon.

Fixed Assets S.Kr. 8,586,268.27.

The book value of these Assets, which has decreased during the year by S.Kr. 375,422.45, is obtained as follows :—

Book value as at December 31st, 1933, after provision for depreciation..	8,961,690.72
Add : Outlays during 1934, *less* sales, etc. ..	1,092,732.05
	10,054,422.77
Deduct : Provision for depreciation for the year 1934	1,468,154.50
Book value as at December 31st, 1934	S.Kr. 8,586,268.27

Factory extensions, Plant and Machinery, and Service Cars for the English Company account for S.Kr. 654,740.92 of the additional outlays during the year.

Provision for Taxes and other Charges Accrued S.Kr. 4,503,798.52.

In this figure taxation has been provided on the various Companies' results up to and including the year under review with the exception of Swedish taxation on Aktiebolaget Elektrolux' result for 1934, provision for which is contained in the proposed allocation of that Company's Surplus.

Payment of the greater part of the S.Kr. 3,468,499.64, provided for taxes, will not fall due until 1936 or later.

Surplus S.Kr. 20,000,574.17.

After providing for Swedish taxation on Aktiebolaget Elektrolux' profit for the year with S.Kr. 1,000,000.00 and for distribution of the final dividend of 5% or S.Kr. 3,000,000.00, as proposed by the Board at the outset of this report, there remains a Surplus of S.Kr. 16,000,574.17 to carry forward to the current year. Compared with the amount brought forward from 1933 of S.Kr. 11,775,383.37, the Surplus has increased during 1934 by S.Kr. 4,225,190.80.

For comparative purposes the corresponding figures as at December 31st, 1931, 1932 and 1933 have been inserted in the accompanying statement of the Concern's Consolidated Balance Sheet as at December 31st, 1934.

Stockholm, *March 15th*, 1935.

A. L. WENNER-GREN, H. A. WERNHER, AXEL F. ENSTROM, MANNE SIEGBAHN, STEN WIDELL, F. DEIJFEN, AXEL ENGBERG, GUSTAF SAHLIN, H. G. FAULKNER.

AKTIEBOLAGET ELEKTROLUX STOCKHOLM

COMPARATIVE CONSOLIDATED

Assets	December 31st 1931 S.Kr.	1932 S.Kr.	1933 S.Kr.	1934 S.Kr.
Current Assets :—				
Cash at Banks and on Hand ..	4,090,325.44	8,182,513.78	9,011,434.10	12,417,836 99
Marketable Securities	14,859,622.62	11,931,654.52	9,785,671.99	825,413.18
Outstanding Consideration on Sale of Shares	—	—	—	5,203,189.07
Customers' Outstandings (*less* Reserves for Hire Purchase Interest & Doubtful Accounts) ..	25,965,725.04	33,172,975.56	38,687,678.17	42,325,477.51
Due by Associated Companies ..	12,916,132.36	8,645,183.10	7,633,002.46	5,203,931.69
Miscellaneous Accounts Receivable	342,568.24	278,303.97	208,727.49	169,117.77
Inventories of Merchandise on Hand (Raw Materials, Supplies, finished & partly finished Goods) at Factory Cost plus Customs Duty and Freight on Stocks abroad, *less* Reserves for obsolescence, etc.	11,594,044.78	10,295,293.79	10,496,439.76	13,879,557.28
	69,768,418.48	72,505,924.72	75,822,953.97	80,024,523.49
Fixed Assets (at depreciated values):—				
Land, Factory and Office Buildings	5,459,560.35	5,396,268.73	5,612,220.05	5,805,713.03
Plant, Machinery, Tools, etc. ..	2,153,175.72	2,197,362.75	2,183,865.60	1,755,139.82
Office and Workshop Equipment, Automobiles, etc.	1,586,402.47	1,385,938.98	1,165,605.07	1,025,415.42
	9,199,138.54	8,979,570.46	8,961,690.72	8,586,268.27
Guarantee Deposits and Deferred Charges	466,466.14	375,536.35	412,692.30	363,278.96
Patents, Trade Marks and Goodwill	—	—	—	—
S.Kr.	79,434,023.16	81,861,031.53	85,197,336.99	88,974,070.72

We, the undersigned auditors appointed to examine the administration

AUDITORS'

We have examined the accounts, which have also been controlled by a
The Company's various cash balances have been checked on different order.
The different bank accounts have been checked up and all securities on
We have examined the minutes drawn up during the year and have also referring to the Company's financial condition and the Board's administration.
The values at which the assets have been taken up have been found fully the reserves set up for accounts receivable and stocks both in Sweden and
The Consolidated Balance Sheet of the Concern as included in the Board's drawn up on sound principles and giving a true picture of the Concern's
We recommend approval of the Board's proposal in regard to the allo counts presented as at December 31, 1934, as shown in the Board's Report be
As a consequence of the audit carried out we recommend that the Board

Stockholm, *in March* 1935.

AND SUBSIDIARY COMPANIES—(cont.)

BALANCE SHEET

Liabilities	December 31st 1931 S.Kr.	1932 S.Kr.	1933 S.Kr.	1934 S.Kr.
Current Liabilities—				
Bank Loans	641,010.07	301,248.62	148,614.95	152,051.67
Suppliers' Balances and Bills Payable	1,318,746.27	1,511,861.38	1,874,497.09	1,779,296.60
Due to Associated Companies ..	44,061.37	44,188.88	13,959.52	182,970.45
Miscellaneous Accounts Payable ..	1,102,507.42	1,544,583.20	2,160,638.62	2,145,708.26
Dividends Unclaimed	15,186.00	26,239.00	23,453.00	97,684.00
Provision for Taxes and other Charges Accrued	1,899,725.12	3,103,122.16	3,174,989.79	4,503,798.52
	5,021,236.25	6,531,243.24	7,396,152.97	8,861,509.50
Other Liabilities—				
Outstanding Purchase Considerations, etc.	353,083.24	146,686.77	146,557.60	9,993.85
Mortgage Loan (secured on Real Estate)	108,758.38	106,492.90	104,243.05	101,993.20
	461,841.62	253,179.67	250,800.65	111,987.05
Total Liabilities ..	5,483,077.87	6,784,422.91	7,646,953.62	8,973,496.55
Share Capital and Surplus—				
Share Capital	60,000,000.00	60,000,000.00	60,000,000.00	60,000,000.00
Surplus (subject to Provision for Taxes on A/B Elektrolux' Profit and to Dividend)..	13,950,945.29	15,076,608.62	17,550,383.37	20,000,574.17
	73,950,945.29	75,076,608.62	77,550,383.37	80,000,574.17
S.Kr.	79,434,023.16	81,861,031.53	85,197,336.99	88,974,070.72
Contingent Liabilities S.Kr.	2,965,000.00	1,970,000.00	865,000.00	560,000.00

and accounts of A/B Elektrolux for the year 1934, beg to submit the following

REPORT.

special verifier appointed therefor, and have found them especially well kept.
occasions by the special verifier, and everything thereby found in perfect

hand inspected.
had produced to us the insurance policies, contracts and other documents

satisfactory, the amounts provided for depreciation of fixed assets as well as
abroad being sufficient.
Report has been examined by us. We have found this Balance Sheet to be
financial condition at the close of the year.
cation of the profit earned and recommend to the Shareholders that the ac-
duly approved.
be granted full discharge for the past financial year's administration.

SETH SVENSSON,
Auditor, authorized by Stockholm's Chamber of Commerce.
ARVID ERIKSON,
Auditor, authorized by Stockholm's Chamber of Commerce.

AKTIEBOLAGET SVENSKA KULLAGERFABRIKEN AND SUBSIDIARY COMPANIES

COMPARATIVE CONSOLIDATED BALANCE SHEET
FOR THE YEARS 1929-1934

Thousands of Kronor

Assets	1929 Kr.	1930 Kr.	1931 Kr.	1932 Kr.	1933 Kr.	1934 Kr.
CAPITAL ASSETS:						
Freehold Land	7,398	8,062	8,094	8,656	8,652	9,010
Buildings	44,566	51,995	56,651	56,774	57,142	58,496
Plant, etc.	77,461	83,470	83,546	84,009	87,100	90,881
Total	129,425	143,527	148,291	149,439	152,894	158,387
Less Reserve for depreciation ..	70,212	76,042	84,127	91,831	100,328	107,928
Net	59,213	67,485	64,164	57,608	52,566	50,459
Patents and Goodwill	—	2,979	715	715	—	—
Shares in other Companies	11,457	8,071	8,330	2,030	1,982	1,976
Total	70,670	78,535	73,209	60,353	54,548	52,435
DEFERRED CHARGES	1,979	3,382	3,962	2,381	2,974	1,663
CURRENT ASSETS :						
Inventories	88,142	97,279	84,982	75,673	74,633	86,004
Accounts and Acceptances receivable	39,970	32,703	32,728	37,237	37,293	40,423
Investment in Securities	5,901	6,194	7,542	10,071	7,589	5,705
Cash at banks and in hand	37,269	23,272	29,543	36,105	57,368	58,122
Total	171,282	159,448	154,795	159,086	176,883	190,254
TOTAL ASSETS	243,931	241,365	231,966	221,820	234,405	244,352
Liabilities	1929 Kr.	1930 Kr.	1931 Kr.	1932 Kr.	1933 Kr.	1934 Kr.
CAPITAL LIABILITIES :						
Capital	130,000	130,000	130,000	130,000	130,000	130,·00
Reserve Fund	13,200	13,200	13,200	13,200	13,200	13,200
Capital and proportion of reserve fund and surplus of subsidiary companies not owned by SKF ..	14,673	14,995	15,113	12,538	11,189	11,176
Special Reserve	2,631	—	—	—	—	—
Bonds payable	1,807	—	—	—	—	—
Total	162,311	158,195	158,313	155,738	154,389	154,376
CURRENT LIABILITIES :						
Loans	4,453	8,986	9,653	8,360	8,813	6,637
Accounts payable	18,843	17,811	15,831	14,264	19,672	20,341
Tax Reserve	10,897	9,396	7,537	6,389	10,912	13,073
Dividend	15,633	13,094	9,142	9,193	10,505	24,391
Total	49,826	49,287	42,163	38,206	49,902	64,442
PENSION RESERVE, ETC.	2,420	2,514	2,486	2,515	3,012	3,318
SURPLUS	29,374	31,369	29,004	25,361	27,102	22,216
TOTAL LIABILITIES ..	243,931	241,365	231,966	221,820	234,405	244,352
CONTINGENT LIABILITIES	2,668	2,038	2,499	2,160	2,124	1,794
ACCEPTANCES DISCOUNTED	1,348	3,926	3,233	2,688	3,513	2,766

AKTIEBOLAGET SVENSKA

PROFIT AND LOSS AND SURPLUS ACCOUNTS

FOR 1934

	Kr.	Kr.
SALES		67,864,281:96
Less—		
Cost of products sold, including maintenance, repairs (page 15*) and depreciation (page 16*)	47,680,129:00	
Selling and administrative expenses ..	4,701,033:81	
	52,381,162:81	
Deduct depreciation included in the above cost of products sold.. ..	4,583,114:84	
		47,798,047:97
Balance		20,066,233:99
Sundry losses on dwelling houses, including transfers		340,725:55
Total net income from manufacture and selling before charging depreciation and providing for taxes		19,725,508:44
OTHER INCOME—		
Dividends from subsidiary and other companies	3,252,979:73	
Interest and sundries	3,947,141:79	
		7,200,121:52
Total income for the year 1934 before charging depreciation and providing for taxes (Forward)		26,925,629:96

* Schedules not reproduced in this book.

The above Profit and Loss Account and Surplus Account agree with the of the earnings and expenses of the company for the fiscal year 1934, provided proposed by the Board of Directors.

Gothenburg, *April* 1935.

KULLAGERFABRIKEN—(cont.)

PROFIT AND LOSS AND SURPLUS ACCOUNTS

FOR 1934—(*cont.*)

	Kr.	Kr.
Forward ..		26,925,629:96
Less Depreciation on properties, machinery, etc.	4,583,114:84	
Reserved for taxes	5,400,000:00	
		9,983,114:84
Net income for the year 1934		16,942,515:12
Less sundry amounts not connected with the year's operations		111,286:72
NET PROFITS FOR 1934		16,831,228:40
Balance on Surplus Account at 31st December, 1933		26,466,447:01
Total		43,297,675:41
Distribution of surplus as proposed by the Board of Directors :		
(*a*) 8% dividend on coupon No. 24	10,400,000:00	
(*b*) 260,000 shares of Kr. 50:00 each in Aktiebolaget Volvo, on coupon No. 25, on the books at	11,092,581:06	
		21,492,581:06
SURPLUS 31st December, 1934 as per proposal of the Board of Directors	Kr.	21,805,094:35

books of Aktiebolaget Svenska Kullagerfabriken and are correct statements that the Shareholders' meeting approves of the disposition of the surplus as

R. ANDRÉEN
HAKON LEFFLER
ERIK RÖDJER
EDVARD STENBERG
} *Auditors.*

AKTIEBOLAGET SVENSKA

BALANCE SHEET,

	Kr.	Kr.
CAPITAL ASSETS—		
Plant and Properties	63,912,698:62	
Less Reserve for Depreciation (page 16)*	49,830,050:79	
	14,082,647:83	
Shares owned (pages 19-20)* ..	84,661,952:35	
		98,744,600:18
DEFERRED CHARGES		278,649:60
CURRENT ASSETS—		
Inventories (page 21)*	30,434,915:03	
Loans to Subsidiary Companies ..	7,836,661:42	
Accounts receivable	16,566,739:77	
Notes and Acceptances receivable ..	3,845,750:77	
Dividends receivable	2,272,496:12	
Investment in Securities (page 21)* ..	3,358,806:40	
Cash at Banks and in hand	45,765,196:32	
		110,080,565:83
	Kr.	209,103,815:61

*Schedules not reproduced in this book.

31st December, 1934

	Kr.	Kr.
Capital Liabilities—		
Share Capital (page 22)*	130,000,000:00	
Reserve Fund (page 22)*	13,200,000:00	
		143,200,000:00
Current Liabilities—		
Payments received in advance and deposits	4,410,475:40	
Accounts payable and payrolls ..	5,101,882:36	
Goods in transit	134,567:23	
Unpaid dividends	157,445:00	
Reserve for taxes	9,898,623:53	
Dividend on Coupons Nos. 24 and 25 as proposed by the Board of Directors	21,492,581:06	
		41,195,574:58
Reserve for Pensions Etc.—		
Pensions, etc...	2,159,202:04	
Sven Wingquist's funds for employees	226,100:53	
Insurance funds	517,844:11	
		2,903,146:68
Surplus		21,805,094:35
	Kr.	209,103,815:61

	Kr.
Contingent Liabilities	2,472,922:41
Acceptances Discounted	2,527,783:59
Securities Pledged	342,470:00

Aktiebolaget Svenska Kullagerfabriken

B. G. Prytz, Managing Director.

We hereby certify that the above Balance Sheet agrees with the books of Aktiebolaget Svenska Kullagerfabriken, and is properly drawn up to show the financial position of the Company at 31st December, 1934, provided the Shareholders' Meeting approves of the disposition of the surplus as proposed by the Board of Directors.

R. Andréen
Hakon Leffler
Erik Rödjer
Edvard Stenberg
Auditors.

Gothenburg, *April* 1935.

*Schedules not reproduced in this book.

AKTIEBOLAGET SVENSKA KULLAGERFABRIKEN—(cont.)

AUDITORS' CERTIFICATE FOR 1934

We, the undersigned, elected to examine the accounts of Aktiebolaget Svenska Kullagerfabriken for the fiscal year 1934, hereby submit the following report.

The Company's Balance Sheet as per 31st December 1934, as well as the Profit and Loss and Surplus Accounts for 1934 as attached to the Report of the Board of Directors have been examined and agree with the books.

The Deferred Charges shown in the Balance Sheet represent amounts which should be charged to operations of future years.

The stocks of raw materials, shop supplies, semi-finished and finished products on hand as shown by inventories, certified by officials of the Company, have been valued on a conservative basis.

The minutes of the Board of Directors were placed at our disposal and were examined by us.

The shares and other securities belonging to the Company have been checked and the insurance policies examined and found to be in order.

The accounts of the Company and the cash balances have been periodically examined during the year by specially appointed auditors, who have certified that everything is in order.

The consolidated balance sheet of the SKF Concern, attached to the Directors' report, is made up on the basis of the balance sheets of the 67 companies belonging to the Concern, of which the larger foreign ones have been audited by chartered accountants in their respective countries. We have examined the principles followed in the preparation of this consolidated balance sheet and in our opinion it should give a correct view of the financial position of the Concern.

We recommend the Shareholders' Meeting to approve of the proposal made by the Board of Directors as regards the disposition of the surplus of the Company, and to grant the Board of Directors discharge for the administration during 1934.

R. ANDRÉEN
HAKON LEFFLER
ERIK RÖDJER

EDVARD STENBERG
Chartered Accountant.

Gothenburg, *April* 1935

AKTIEBOLAGET SVENSKA KULLAGERFABRIKEN—(cont.)

Other Documents Published by Aktiebolaget Svenska Kullagerfabriken as Schedules to its Balance Sheet

The following schedules accompany the accounts for the year 1934 shown above, but in view of considerations of space are not reproduced here :—

Statement of Amounts charged for Maintenance and Repairs for years 1933-1934.

Movements in Reserve for Depreciation during the year 1934, and particulars of rates of depreciation in use.

Changes in Capital Assets during 1934.

Capital Assets at 31st December, 1934.

List of Shares owned at 31st December, 1933 and 31st December, 1934 giving details of the amounts shown in the balance sheets for these holdings.

Summary of Inventories at 31st December, 1933 and 31st December, 1934.

Investment in Securities at 31st December, 1934.

Share Capital and Reserve Fund at 31st December, 1934.

Contingent Liabilities at 31st December, 1934.

Changes in Working Capital during 1934.

Comparative Profit and Loss and Surplus Accounts for years 1929-1934.

Comparative Balance Sheets for years 1929-1934.

List of SKF Factories, Offices and Agencies.

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